

**City of Petoskey**

**FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**December 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                                |  |                 |
|--|--------------------------------|--|-----------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                                | Local Unit Name<br>City of Petoskey                  | County<br>Emmet |
| Fiscal Year End<br>December 31, 2006   | Opinion Date<br>April 26, 2007 | Date Audit Report Submitted to State<br>May 17, 2007 |                 |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input type="checkbox"/>            | Included in "Audit-Related Communication"  |                              |
| Other (Describe)   | <input checked="" type="checkbox"/> | Audit-Related Communication                |                              |
| Certified Public Accountant (Firm Name)<br>Dennis, Gartland & Niergarth  |                                     | Telephone Number<br>231-946-1722           |                              |
| Street Address<br>415 Munson Avenue  |                                     | City<br>Traverse City                      | State<br>MI                  |
|  |                                     | Zip<br>49686                               |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Robert C. Thompson         | License Number<br>1101011523 |

## CONTENTS

### Page

|  |    |
|--|----|
| MANAGEMENT'S DISCUSSION AND ANALYSIS.....  | i  |
| REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....  | 4  |
| FINANCIAL STATEMENTS   |    |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS   |    |
| STATEMENT OF NET ASSETS .....  | 6  |
| STATEMENT OF ACTIVITIES.....   | 8  |
| GOVERNMENTAL FUND FINANCIAL STATEMENTS   |    |
| BALANCE SHEET - GOVERNMENTAL FUNDS .....   | 9  |
| RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE<br>STATEMENT OF NET ASSETS .....   | 10 |
| STATEMENT OF REVENUES, EXPENDITURES AND<br>CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS .....  | 11 |
| RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND<br>CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE<br>STATEMENT OF ACTIVITIES..... | 12 |
| PROPRIETARY FUND FINANCIAL STATEMENTS  |    |
| STATEMENT OF NET ASSETS - PROPRIETARY FUNDS .....  | 13 |
| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN<br>FUND NET ASSETS - PROPRIETARY FUNDS .....  | 15 |
| STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS .....  | 16 |
| FIDUCIARY FUND FINANCIAL STATEMENTS  |    |
| STATEMENT OF FIDUCIARY NET ASSETS .....  | 18 |
| STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS .....   | 19 |
| NOTES TO FINANCIAL STATEMENTS.....   | 20 |

## CONTENTS - Continued

|   | <u>Page</u> |
|---|-------------|
| REQUIRED SUPPLEMENTARY INFORMATION  |             |
| BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....   | 42          |
| BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND.....  | 43          |
| BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND .....   | 44          |
| BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY<br>IMPROVEMENT FUND.....                                     | 45          |
| DEFINED BENEFIT PENSION PLAN - TREND INFORMATION.....   | 46          |
| COMBINING FINANCIAL STATEMENTS  |             |
| COMBINING STATEMENT OF NET ASSETS - NONMAJOR COMPONENT UNITS.....   | 48          |
| COMBINING STATEMENT OF ACTIVITIES - NONMAJOR COMPONENT UNITS.....   | 49          |
| COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS .....  | 50          |
| COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES<br>IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS..... | 51          |
| COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS .....  | 52          |
| COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN<br>NET ASSETS - INTERNAL SERVICE FUNDS .....           | 53          |

## **Management Discussion and Analysis**

### **December 31, 2006**

The City of Petoskey's financial statements consists of a series of financial reports. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and presents a longer-term view of the City's finances. Fund financial statements tell how the services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

### **Financial Highlights**

The City's net assets increased by \$2.8 million or 4.6% in 2006 with the increase made up of the following:

- Governmental net assets increased by \$1.2 million.
- Business-type net assets increased by \$1.5 million.
- Component units net assets increased by \$0.1 million.

Total revenues and transfers for the year are \$24.8 million and are made up of the following:

- Governmental activities \$10.4 million.
- Business-type activities \$12.9 million.
- Component units activities \$1.5 million.

Total expenses for the year are \$21.8 million and are made up of the following:

- Governmental activities \$9.2 million.
- Business-type activities \$11.4 million.
- Component units activities \$1.2 million.

The General Fund on a current financial resources basis experienced an increase of \$769,893 in fund balance resulting in a total fund balance at year end of \$3.3 million.

### **Project Highlights**

The West Lake Street project was completed in 2006 which included street, sidewalk, underground electric, water, sewer and landscape improvements along various streets and a portion of the non-motorized trail. Total cost of the two year project was \$3,916,000.

The City purchased the former Hunt roofing building on Curtis Avenue for \$511,000, which will house much of the Parks Department operations along with some electric, water and sewer inventory items. Improvements that include heating, lighting and new flooring will be made to the building in 2007.

A traffic light was installed at the intersection of U.S. 31 and Bay Harbor Drive, the main entrance into Bay Harbor at a cost of \$347,000.

## **Financial Statement Presentation**

### **Overview of Statements**

The financial statements provide two views of the City's financial position. Government-wide statements are the top level which summarize all City funds into two statements using the full accrual method of accounting. This method of accounting is similar to private sector for profit accounting.

Government-wide statements include the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes; assets, liabilities and the resulting difference between the two called net assets. Changes in net assets can be reviewed to determine financial strength with increases to net assets perceived as a sign of improving condition.

The Statement of Activities presents revenues and expenses (including depreciation) that are the underlying cause of changes in net assets. Capital projects are excluded from this statement since they are included in the Statement of Net Assets as additions to capital assets.

Fund financial statements under GASB Statement 34 separate funds into major and nonmajor categories. Major funds focus on funds with a large amount of financial activities which results in the inclusion of more detailed information. Governmental Funds for the City of Petoskey include the following major funds:

General Fund  
Right of Way Improvement Fund  
Major Street Fund  
Local Street Fund

Non major funds are smaller funds with less activity and are consolidated into one column in the fund financial statements. Additional and more detailed information on nonmajor funds is presented after the notes to the financial statements.

### **Fund Type Statements**

The City's funds are organized on the basis of individual funds with each fund having a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Funds are classified as either governmental, proprietary or fiduciary in nature.

Governmental funds make up the funds included within the governmental activities column of the government-wide statements discussed above except for internal service funds (Motor Pool & Fringe Benefits) that are included in government-wide statements and are not governmental funds. Governmental funds utilize a modified accrual basis of accounting that focuses on more available and spendable resources and expenses like debt payments and capital purchases. Long-term debt and depreciation are not recorded under the modified accrual basis of accounting.

This varies from the full accrual basis of accounting used in the government-wide statements that records the purchase of capital items as assets and depreciates them over time and records long-term debt as a liability reducing the principal portion from the liability when paid and only expensing interest. There are also other less significant differences between the two accounting methods.

## Financial Statement Presentation – continued

Proprietary funds use the full accrual method of accounting for both government-wide and fund level financial statements. There are two types of proprietary funds: enterprise and internal service funds.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where costs for goods and services provided to the general public are recovered primarily through user charges. The City's enterprise funds include the Electric, Water, & Sewer and Downtown Management Parking Funds, although the Downtown Management Parking Fund is included as a component unit.

Internal service funds are like enterprise funds except they only provide their goods or services to City departments and agencies. The City's internal service funds include the Fringe Benefit and Motor Pool Funds. Internal service funds are consolidated into the governmental activities in the government-wide statements and are presented separately in the fund level statements.

Component units are separate legal entities for which the City has some level of financial accountability and oversight control. Component units are shown in a separate column of the government-wide financial statements. The City's component units include the Tax Increment Finance Authority, Library, and Downtown Management Parking Funds. Separate financial statements for the component units are not required and none are issued.

## Financial Analysis

### Summary of Net Assets December 31, 2006 and 2005

|   | Governmental | Activities   | Business-type | Activities   | Total Primary | Government   |
|---|--------------|--------------|---------------|--------------|---------------|--------------|
|   | 2006         | 2005         | 2006          | 2005         | 2006          | 2005         |
| Current and other assets                        | \$6,966,924  | \$6,228,268  | \$9,732,464   | \$11,922,528 | \$16,699,388  | \$18,150,796 |
| Capital assets                                  | 17,465,143   | 17,223,865   | 39,824,618    | 37,042,284   | 57,289,761    | 54,266,149   |
| Total assets                                    | \$24,432,067 | \$23,452,133 | \$49,557,082  | \$48,964,812 | \$73,989,149  | \$72,416,945 |
| Current and other liabilities                   | \$632,182    | \$660,007    | \$1,477,735   | \$1,957,593  | \$2,109,917   | \$2,617,600  |
| Long-term debt outstanding                      | 630,000      | 785,000      | 11,115,040    | 11,561,907   | 11,745,040    | 12,346,907   |
| Total liabilities                               | \$1,262,182  | \$1,445,007  | \$12,592,775  | \$13,519,500 | \$13,854,957  | \$14,964,507 |
| Net assets:                                     |              |              |               |              |               |              |
| Invested in capital assets, net of related debt | \$16,680,143 | \$16,283,865 | \$23,001,212  | \$20,112,089 | \$39,681,355  | \$36,395,954 |
| Restricted                                      | 63,356       | 63,084       | 4,666,827     | 4,498,657    | 4,730,183     | 4,561,741    |
| Unrestricted                                    | 6,426,386    | 5,660,177    | 9,296,268     | 10,834,566   | 15,722,654    | 16,494,743   |
| Total net assets                                | \$23,169,885 | \$22,007,126 | \$36,964,307  | \$35,445,312 | \$60,134,192  | \$57,452,438 |

## **Financial Analysis – continued**

Total net assets of the City are \$60,134,192 which includes \$39,681,355 in capital assets net of debt. Capital assets are largely made up of electric, water, sewer and street systems assets.

The City used fund balance reserves in the following governmental funds and amounts during 2006 to cover anticipated expenditures that were included in the City's 2006 budget:

|                   |           |
|-------------------|-----------|
| Local Street Fund | \$295,924 |
|-------------------|-----------|

### **Common Effects to Net Assets**

There are a number of transactions in the normal course of business that will affect the comparability of the Summary of Net Assets presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net assets.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net assets and increasing invested in capital assets net of debt.

Principal payment on debt will reduce current assets, long-term debt and unrestricted net assets while increasing invested in capital assets, net of related debt.

The reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.



# Financial Analysis – continued

## Changes in Net Assets December 31, 2006 and 2005

|   | Governmental      | Activities        | Business-type      | Activities        | Total Primary     | Government        |
|---|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
|   | 2006              | 2005              | 2006               | 2005              | 2006              | 2005              |
| <b>Revenues</b>                               |                   |                   |                    |                   |                   |                   |
| Program revenues:                             |                   |                   |                    |                   |                   |                   |
| Charges for services                          | \$1,698,834       | \$1,816,144       | 13,859,350         | \$13,262,873      | 15,558,184        | \$15,079,017      |
| Operating grants & contributions              | 725,308           | 687,857           | 85,525             | 89,335            | 810,833           | 777,192           |
| Capital grants & contributions                | -                 | 70,000            | 95,121             | 194,972           | 95,121            | 264,972           |
|   | 2,424,142         | 2,574,001         | 14,039,996         | 13,547,180        | 16,464,138        | 16,121,181        |
| General revenues:                             |                   |                   |                    |                   |                   |                   |
| Property taxes                                | 5,260,796         | 5,251,365         | -                  | -                 | 5,260,796         | 5,251,365         |
| State shared revenue                          | 559,707           | 568,540           | -                  | -                 | 559,707           | 568,540           |
| Investment earnings                           | 415,322           | 250,619           | 470,048            | 274,666           | 885,370           | 525,285           |
| Other   | -                 | -                 | -                  | -                 | -                 | -                 |
|   | 6,235,825         | 6,070,524         | 470,048            | 274,666           | 6,705,873         | 6,345,190         |
| <b>Total revenues</b>                         | <b>8,659,967</b>  | <b>8,644,525</b>  | <b>14,510,044</b>  | <b>13,821,846</b> | <b>23,170,011</b> | <b>22,466,371</b> |
| <b>Expenses</b>                               |                   |                   |                    |                   |                   |                   |
| Program expenses:                             |                   |                   |                    |                   |                   |                   |
| Legislative                                   | 6,438             | 8,244             | -                  | -                 | 6,438             | 8,244             |
| General government                            | 1,364,644         | 1,662,621         | -                  | -                 | 1,364,644         | 1,662,621         |
| Public safety                                 | 2,636,298         | 2,550,878         | -                  | -                 | 2,636,298         | 2,550,878         |
| Public works                                  | 2,627,852         | 1,909,355         | -                  | -                 | 2,627,852         | 1,909,355         |
| Health & welfare                              | 21,066            | 18,856            | -                  | -                 | 21,066            | 18,856            |
| Recreation & cultural                         | 1,687,547         | 1,401,617         | -                  | -                 | 1,687,547         | 1,401,617         |
| Other   | 1,595             | 98,100            | -                  | -                 | 1,595             | 98,100            |
| Interest on long-term debt                    | 43,488            | 53,343            | -                  | -                 | 43,488            | 53,343            |
| Unallocated depreciation                      | 845,180           | 780,657           | -                  | -                 | 845,180           | 780,657           |
| Water & Sewer                                 | -                 | -                 | 3,564,601          | 3,939,361         | 3,564,601         | 3,939,361         |
| Electric                                      | -                 | -                 | 7,778,748          | 8,193,309         | 7,778,748         | 8,193,309         |
| <b>Total expenses</b>                         | <b>9,234,108</b>  | <b>8,483,671</b>  | <b>11,343,349</b>  | <b>12,132,670</b> | <b>20,577,457</b> | <b>20,616,341</b> |
| <b>Changes in net assets before transfers</b> | <b>(574,141)</b>  | <b>160,854</b>    | <b>3,166,695</b>   | <b>1,689,176</b>  | <b>2,592,554</b>  | <b>1,850,030</b>  |
| <b>Transfers</b>                              | <b>1,736,900</b>  | <b>983,688</b>    | <b>(1,647,700)</b> | <b>(819,400)</b>  | <b>89,200</b>     | <b>164,288</b>    |
| <b>Changes in net assets</b>                  | <b>1,162,759</b>  | <b>1,144,542</b>  | <b>1,518,995</b>   | <b>869,776</b>    | <b>2,681,754</b>  | <b>2,014,318</b>  |
| <b>Net assets-beginning of year</b>           | <b>22,007,126</b> | <b>20,862,584</b> | <b>35,445,312</b>  | <b>34,575,536</b> | <b>57,452,438</b> | <b>55,438,120</b> |
| <b>Net assets-end of year</b>                 | <b>23,169,885</b> | <b>22,007,126</b> | <b>36,964,307</b>  | <b>35,445,312</b> | <b>60,134,192</b> | <b>57,452,438</b> |

## **Financial Analysis – continued**

Capital grants and contributions in program revenues for Governmental Activities decreased to \$0 in 2006 down from \$70,000 in 2005. Last year's contribution represents the estimated value of the Chief Petosega statue donated to the City and is located on Lewis Street.

Charges for services in Business-type Activities increased \$596,477 to a total of \$13,859,350 in 2006 up from \$13,262,873 in 2005. The increase is due to additional electric customer usage along with continued rising costs for purchased wholesale electric power that is passed on to customers through a monthly fuel cost adjustment.

Revenues from all sources total \$23,729,551, of which \$10,396,867 is from governmental activities and \$13,002,446 from business-type activities. Total revenues from governmental activities includes \$5,260,796 in property taxes accounting for 51% of the funds and \$1,698,834 or 16% from charges for services. Total revenues for business-type activities receives the vast majority of revenues through charges for services totaling \$13,859,350 last year.

Expenses under the full accrual basis of accounting for governmental activities totaled \$9,234,108 which includes depreciation on such items as buildings and infrastructure amounting to \$845,180. Total expense does not include capital asset items such as street and sidewalk improvements. Public safety accounts for \$2,636,298 or 28.5% of expenses while public works totals \$2,627,852 also 28.5%. Expenses for general government were \$1,364,644 and recreation and cultural were \$1,687,547 or 14.8% and 18.2% respectively.

Expenses for business-type activities total \$11,343,349 which consists of \$7,778,748 or 68.6% from the electric system and \$3,564,601 or 31.4% from the water and sewer systems. Within the electric system \$6,021,152 or 77.4% of the expense is for purchased power. The water and sewer system costs are broken down between the two at \$1,521,863 or 42.7% water and \$2,042,738 or 57.3% sewer.

## **General Fund Budgetary Highlights**

Total General Fund revenues of \$5,473,176 exceeded total budgeted revenues as amended of \$5,232,400 by \$240,776 or 4.4%. Actual revenues decreased from \$6,589,413 received in 2005 or 16.9%, primarily due to classifying administration fees as a transfer instead of a revenue item which reduced the revenue line item by \$1,251,200 in 2006. If administration fees had been included with revenues, 2006 revenues would have exceeded 2005 revenues by \$134,963 or 2.0%. The increase in revenues and transfers from the previous year is primarily due to an increase in investment income from \$149,070 to \$267,750 an increase of \$118,680.

Total General Fund expenditures of \$6,236,208 were \$730,092 less than total budgeted expenditures of \$6,966,300 or 10.5%. Total expenditures for 2006 were also less than 2005 total of \$6,834,557 by \$598,349 or 8.75%. The decrease is due to a reduction in City Assessor expenditures of \$238,447 with the City-wide reappraisal completed in 2005 along with a reduction in challenges at the Michigan Tax Tribunal. City Attorney expenditures also decreased by \$129,762 in 2006 totaling \$120,727 when compared to 2005 expenditures of \$250,489.

## Capital Assets and Debt Administration

### Capital Assets

As of year end the City of Petoskey had \$52,046,395 invested in capital assets as reflected in the following schedule:

### Capital Assets December 31, 2006 and 2005 (Net of Depreciation)

|                       | Governmental | Activities    | Business-type | Activities    | Total        |              |
|-----------------------|--------------|---------------|---------------|---------------|--------------|--------------|
|                       | 2006         | 2005          | 2006          | 2005          | Primary      | Government   |
|                       |              |               |               |               | 2006         | 2005         |
| Land and land rights  | \$1,887,069  | \$1,887,069   | \$837,856     | \$837,856     | \$2,724,925  | \$2,724,925  |
| Land improvements     | 398,044      | 437,402       | -             | -             | 398,044      | 437,402      |
| Buildings             | 2,215,420    | 2,313,747     | -             | -             | 2,215,420    | 2,313,747    |
| Office equipment      | 2,056,454    | 2,180,144     | -             | -             | 2,056,454    | 2,180,144    |
| Streets and sidewalks | 10,908,156   | 10,405,503    | -             | -             | 10,908,156   | 10,405,503   |
| Electric system       | -            | -             | 13,344,376    | 10,365,272    | 13,344,376   | 10,365,272   |
| Water system          | -            | -             | 9,101,635     | 9,211,538     | 9,101,635    | 9,211,538    |
| Sewer system          | -            | -             | 11,297,385    | 11,629,329    | 11,297,385   | 11,629,329   |
|                       | \$17,465,143 | \$ 17,223,865 | \$34,581,252  | \$ 32,043,995 | \$52,046,395 | \$49,267,860 |

### Major capital asset additions for 2006 include:

#### Governmental Activities

|                                |              |
|--------------------------------|--------------|
| Street reconstruction projects | \$ 1,167,279 |
| Snowplow truck                 | 127,410      |
| Motor pool replacement         | 117,818      |

#### Business-Type Activities

|                              |           |
|------------------------------|-----------|
| Water system improvements    | 221,236   |
| Sewer system improvements    | 75,805    |
| Electric system improvements | 3,597,614 |

## Bond Debt

The City had \$12,605,000 in outstanding bond debt at year end which is distributed in the following debt schedule:

### Debt Schedule December 31, 2006 and 2005

| Governmental Activities   | 2006                | 2005                |
|---------------------------|---------------------|---------------------|
| General Obligation Bonds: |                     |                     |
| Municipal facilities      | \$ 290,000          | \$ 395,000          |
| Parking improvements      | 495,000             | 545,000             |
|                           | <u>785,000</u>      | <u>940,000</u>      |
| Business-Type Activities  |                     |                     |
| Revenue Bonds:            |                     |                     |
| Sewer system improvements | 7,300,000           | 7,350,000           |
| Water system improvements | 4,520,000           | 4,840,000           |
|                           | <u>11,820,000</u>   | <u>12,190,000</u>   |
| Total bond debt           | <u>\$12,605,000</u> | <u>\$13,130,000</u> |

Principal payments on bonds in the amount of \$155,000 for governmental activities and \$370,000 for business-type activities were made in 2006.

## Economic Factors

The City of Petoskey's three largest sources of revenue include property taxes, revenues received from the state and utility charges. The economic forecast for the community is dependent on these three revenue sources.

Property tax revenue experienced substantial growth due to the development of Bay Harbor during its first several years. Bay Harbor now makes up over half of the City's total taxable value but the significant annual increases have leveled off and more normal additions to the taxable value of the city are expected from now on. Based on current economic conditions, there has been some decline in the property that the City will not regain when economic conditions improve and values increase based on state valuation laws. The City will continue to see taxable value increases at 5% or the rate of inflation, whichever is less. The inflation rate has always been less than the 5% limit with the rate in 2006 at 3.3% and for 2007 the rate will increase to 3.7%.

Revenues received from the State, which include revenue sharing and transportation funds, are affected as well by current economic conditions along with allocation to local units established by the legislature. Revenue sharing amounts are dependent on the collection of sales tax, which tend to go down when the economy is slow with the reverse being true when the economy is good. Transportation funds are derived through gas taxes and while they are affected by the economy they are more affected by the price of oil and resulting gas prices that don't always follow certain economic conditions. State revenue sharing declined again in 2006 but, by a lesser amount of 1.6%, while transportation funds in the Major and Local Street Funds remained unchanged.

Utility charges for electric, water, and sewer service tend to fluctuate based on weather conditions more so than any other factor. During hot summer months electrical usage will be up while dry spells will increase water usage. Utility rates have not been increased in several years but due to rising costs and concerns over water quality issues increases in water and sewer rates may be required in the near future.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.



Business and Financial Advisors  
*Our clients' success - our business*

Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary E. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, Members of City Council and City Manager  
City of Petoskey

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the **City of Petoskey** (the "City") as of and for the year ended December 31, 2006, which collectively compose the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Petoskey as of December 31, 2006 and the respective changes in financial position, where applicable, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through ix and budgetary comparison and defined benefit pension plan trend information on pages 42 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Member of



415 Munson Avenue, Post Office Box 947  
Traverse City, Michigan 49685-0947  
231.946.1722, FAX: 231.946.2762  
[www.dgncpa.com](http://www.dgncpa.com)

Honorable Mayor, Members of the City Council and City Manager  
City of Petoskey  
Page 2

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Michigan Department of Treasury for the purpose of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Dennis, Gartland & Niergarth*

April 26, 2007

# City of Petoskey

## STATEMENT OF NET ASSETS

December 31, 2006

|                                   | Primary Government      |                          |                      | Component Units     |                                |
|-----------------------------------|-------------------------|--------------------------|----------------------|---------------------|--------------------------------|
|                                   | Governmental Activities | Business-type Activities | Total                | Library             | Other Nonmajor Component Units |
| <b>ASSETS</b>                     |                         |                          |                      |                     |                                |
| Current assets                    |                         |                          |                      |                     |                                |
| Cash                              | \$ 4,282,515            | \$ 4,069,950             | \$ 8,352,465         | \$ 358,246          | \$ 582,900                     |
| Investments                       | 1,678,867               | 2,760,970                | 4,439,837            | 65,155              | 97,920                         |
| Receivables                       |                         |                          |                      |                     |                                |
| Special assessments               | 28,972                  | -                        | 28,972               | -                   | -                              |
| Accounts                          | 106,750                 | 1,988,856                | 2,095,606            | 3,518               | -                              |
| Due from Fiduciary Fund           | 414,830                 | -                        | 414,830              | 74,528              | -                              |
| Due from component units          | 72                      | -                        | 72                   | -                   | -                              |
| Due from other governmental units | 180,238                 | -                        | 180,238              | -                   | -                              |
| Internal balances                 | 122,244                 | (17,111)                 | 105,133              | -                   | -                              |
| Inventory                         | 152,436                 | 929,799                  | 1,082,235            | -                   | -                              |
| Total current assets              | <u>6,966,924</u>        | <u>9,732,464</u>         | <u>16,699,388</u>    | <u>501,447</u>      | <u>680,820</u>                 |
| Non-current assets                |                         |                          |                      |                     |                                |
| Restricted cash and investments   |                         |                          |                      |                     |                                |
| Customer deposits                 | -                       | 176,831                  | 176,831              | -                   | -                              |
| Sewage service covenants          | -                       | 295,769                  | 295,769              | -                   | -                              |
| Revenue bond covenants            | -                       | 2,545,701                | 2,545,701            | -                   | -                              |
| MPPA energy restrictions          | -                       | 1,825,357                | 1,825,357            | -                   | -                              |
| Deferred charges                  | -                       | 101,748                  | 101,748              | 39,174              | -                              |
| MPPA working capital advance      | -                       | 297,960                  | 297,960              | -                   | -                              |
| Capital assets                    | 29,474,564              | 51,103,847               | 80,578,411           | 7,137,652           | 461,017                        |
| Less accumulated depreciation     | <u>(12,009,421)</u>     | <u>(16,522,595)</u>      | <u>(28,532,016)</u>  | <u>(1,357,375)</u>  | <u>(54,120)</u>                |
| Total non-current assets          | <u>17,465,143</u>       | <u>39,824,618</u>        | <u>57,289,761</u>    | <u>5,819,451</u>    | <u>406,897</u>                 |
| Total assets                      | <u>\$ 24,432,067</u>    | <u>\$ 49,557,082</u>     | <u>\$ 73,989,149</u> | <u>\$ 6,320,898</u> | <u>\$ 1,087,717</u>            |

The accompanying notes are an integral part of these financial statements.



# City of Petoskey

## STATEMENT OF NET ASSETS - Continued

December 31, 2006

|  | Primary Government         |                             |               | Component Units |   |
|--|----------------------------|-----------------------------|---------------|-----------------|---|
|  | Governmental<br>Activities | Business-type<br>Activities | Total         | Library         | Other<br>Nonmajor<br>Component<br>Units |
| <b>LIABILITIES AND NET ASSETS</b>  |                            |                             |               |                 |   |
| <b>LIABILITIES</b>   |                            |                             |               |                 |   |
| Current liabilities  |                            |                             |               |                 |   |
| Accounts payable   | \$ 220,552                 | \$ 593,861                  | \$ 814,413    | \$ 20,674       | \$ 6,124                                |
| Accrued expenses   | 62,732                     | 12,909                      | 75,641        | 5,692           | -                                       |
| Due to primary government  | -                          | -                           | -             | -               | 72                                      |
| Accrued interest   | -                          | -                           | -             | 40,594          | -                                       |
| Payable from restricted assets   |                            |                             |               |                 |   |
| Current portion of revenue bonds   | -                          | 465,000                     | 465,000       | -               | -                                       |
| Accrued interest   | 9,475                      | 229,134                     | 238,609       | -               | -                                       |
| Bonds payable, due within one year   | 155,000                    | -                           | 155,000       | 100,000         | -                                       |
| Total current liabilities  | 447,759                    | 1,300,904                   | 1,748,663     | 166,960         | 6,196                                   |
| Noncurrent liabilities   |                            |                             |               |                 |   |
| Payable from restricted assets   |                            |                             |               |                 |   |
| Customer deposits  | -                          | 176,831                     | 176,831       | -               | -                                       |
| Estimated liability for landfill<br>closure and post closure care<br>costs | 85,000                     | -                           | 85,000        | -               | -                                       |
| Compensated absences payable   | 99,423                     | -                           | 99,423        | -               | -                                       |
| Bonds payable, net   | 630,000                    | 11,115,040                  | 11,745,040    | 4,015,660       | -                                       |
| Total noncurrent liabilities   | 814,423                    | 11,291,871                  | 12,106,294    | 4,015,660       | -                                       |
| Total liabilities  | 1,262,182                  | 12,592,775                  | 13,854,957    | 4,182,620       | 6,196                                   |
| <b>NET ASSETS</b>  |                            |                             |               |                 |   |
| Invested in capital assets, net of debt                                    | 16,680,143                 | 23,001,212                  | 39,681,355    | 1,664,617       | 406,897                                 |
| Restricted   |                            |                             |               |                 |   |
| Debt service   | 63,356                     | -                           | 63,356        | -               | -                                       |
| Sewage service covenants   | -                          | 295,769                     | 295,769       | -               | -                                       |
| Revenue bond indentures  | -                          | 2,545,701                   | 2,545,701     | -               | -                                       |
| MPPA energy expenses   | -                          | 1,825,357                   | 1,825,357     | -               | -                                       |
| TIFA expenses  | -                          | -                           | -             | -               | 424,813                                 |
| Unrestricted   | 6,426,386                  | 9,296,268                   | 15,722,654    | 473,661         | 249,811                                 |
| Total net assets   | 23,169,885                 | 36,964,307                  | 60,134,192    | 2,138,278       | 1,081,521                               |
| Total liabilities and net<br>assets  | \$ 24,432,067              | \$ 49,557,082               | \$ 73,989,149 | \$ 6,320,898    | \$1,087,717                             |

The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## STATEMENT OF ACTIVITIES

Year ended December 31, 2006

| Functions/Program                             | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                 |
|---|-------------------------|--|--|--|-----------------------------|-----------------|
|   | Charges<br>For Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             | Component Units |
|   |                         |  |  | Governmental<br>Activities                         | Business-type<br>Activities |                 |
| <b>Primary Government</b>                     | <b>Expenses</b>         |  |  | <b>Total</b>                                       | <b>Library</b>              | <b>Nonmajor</b> |
| Legislative                                   | \$ 6,438                | \$ -                                     | \$ -                                   | \$ (6,438)   | \$ -                        | \$ -            |
| General government                            | 1,364,644               | 6,811                                    | -                                      | (1,164,391)  | -                           | -               |
| Public safety                                 | 2,636,298               | 8,842                                    | -                                      | (2,592,518)  | -                           | -               |
| Public works                                  | 2,627,852               | 654,543                                  | -                                      | (1,424,166)  | -                           | -               |
| Health and welfare                            | 21,066                  | -  | -                                      | (21,066)   | -                           | -               |
| Recreation and cultural                       | 1,687,547               | 55,112                                   | -                                      | (711,124)  | -                           | -               |
| Other   | 1,595                   | -  | -                                      | (1,595)  | -                           | -               |
| Interest on long-term debt                    | 43,488                  | -  | -                                      | (43,488)   | -                           | -               |
| Unallocated depreciation                      | 845,180                 | -  | -                                      | (845,180)  | -                           | -               |
| Total governmental activities                 | 9,234,108               | 725,308                                  | -                                      | (6,809,966)  | -                           | -               |
| Business-type activities                      |                         |  |  |  |                             |                 |
| Water and sewer                               | 3,564,601               | 85,525                                   | 74,125                                 | 677,379  | -                           | -               |
| Electric                                      | 7,778,748               | -  | 20,996                                 | 2,019,268  | -                           | -               |
| Total business-type activities                | 11,343,349              | 85,525                                   | 95,121                                 | 2,696,647  | -                           | -               |
| Total primary government                      | \$ 20,577,457           | \$ 810,833                               | \$ 95,121                              | (4,113,319)  | -                           | -               |
| <b>Component Units</b>                        |                         |  |  |  |                             |                 |
| Library                                       | \$ 1,028,558            | \$ 147,021                               | \$ -                                   | -  | (856,109)                   | -               |
| Other nonmajor component units                | 334,894                 | 393,012                                  | -                                      | -  | -                           | 58,118          |
| Total component units                         | \$ 1,363,452            | \$ 540,033                               | \$ -                                   | -  | (856,109)                   | 58,118          |
| <b>General revenues</b>                       |                         |  |  |  |                             |                 |
| Property taxes                                |                         |  |  | 5,260,796  | -                           | 177,596         |
| State shared revenue                          |                         |  |  | 559,707  | -                           | -               |
| Unrestricted interest and investment earnings |                         |  |  | 415,322  | 398,056                     | 27,534          |
| Restricted interest and investment earnings   |                         |  |  | -  | 71,992                      | -               |
| Transfers                                     |                         |  |  | 1,736,900  | (1,647,700)                 | (89,200)        |
| Total general revenues and transfers          |                         |  |  | 7,972,725  | (1,177,652)                 | 115,930         |
| Change in net assets                          |                         |  |  | 1,162,759  | 1,518,995                   | 174,048         |
| Net assets, beginning of year                 |                         |  |  | 22,007,126   | 35,445,312                  | 907,473         |
| Net assets, end of year                       |                         |  |  | \$ 23,169,885                                      | \$ 36,964,307               | \$ 1,081,521    |

8- The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2006

|   | General<br>Fund     | Right-of-<br>Way<br>Improvement<br>Fund | Major<br>Street<br>Fund | Local<br>Street<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|---|-------------------------|-------------------------|--|--------------------------------|
| <b>ASSETS</b>                             |                     |   |                         |                         |  |                                |
| Cash                                      | \$ 1,261,635        | \$ 723,071                              | \$ 425,583              | \$ 543,498              | \$ 278,080                                 | \$ 3,231,867                   |
| Investments                               | 1,678,867           | -                                       | -                       | -                       | -  | 1,678,867                      |
| Receivables                               |                     |   |                         |                         |  |                                |
| Special assessments                       | -                   | -                                       | -                       | -                       | 28,972                                     | 28,972                         |
| Accounts                                  | 93,239              | -                                       | -                       | 282                     | 13,229                                     | 106,750                        |
| Due from other funds                      | 354,815             | 164,002                                 | -                       | -                       | 81,526                                     | 600,343                        |
| Due from component unit                   | -                   | -                                       | -                       | -                       | 9  | 9                              |
| Due from governmental units               | 95,770              | -                                       | 67,755                  | 16,713                  | -  | 180,238                        |
| Inventory                                 | -                   | -                                       | -                       | -                       | 118,790                                    | 118,790                        |
| Total assets                              | <u>\$ 3,484,326</u> | <u>\$ 887,073</u>                       | <u>\$ 493,338</u>       | <u>\$ 560,493</u>       | <u>\$ 520,606</u>                          | <u>\$ 5,945,836</u>            |
| <b>LIABILITIES AND FUND BALANCES</b>      |                     |   |                         |                         |  |                                |
| <b>LIABILITIES</b>                        |                     |   |                         |                         |  |                                |
| Accounts payable                          | \$ 86,178           | \$ -                                    | \$ 24,795               | \$ 50,189               | \$ 37,289                                  | \$ 198,451                     |
| Accrued expenditures                      | 58,621              | -                                       | 1,945                   | 1,716                   | -  | 62,282                         |
| Due to other funds                        | <u>11,555</u>       | <u>-</u>                                | <u>75,384</u>           | <u>35,283</u>           | <u>2,169</u>                               | <u>124,391</u>                 |
| Total liabilities                         | <u>156,354</u>      | <u>-</u>                                | <u>102,124</u>          | <u>87,188</u>           | <u>39,458</u>                              | <u>385,124</u>                 |
| <b>FUND BALANCES</b>                      |                     |   |                         |                         |  |                                |
| Reserved                                  |                     |   |                         |                         |  |                                |
| Debt service                              | -                   | -                                       | -                       | -                       | 72,831                                     | 72,831                         |
| Refuse collection                         | 9,730               | -                                       | -                       | -                       | -  | 9,730                          |
| Marina                                    | 543,507             | -                                       | -                       | -                       | -  | 543,507                        |
| Unreserved                                |                     |   |                         |                         |  |                                |
| Undesignated                              | <u>2,774,735</u>    | <u>887,073</u>                          | <u>391,214</u>          | <u>473,305</u>          | <u>408,317</u>                             | <u>4,934,644</u>               |
| Total fund<br>balances                    | <u>3,327,972</u>    | <u>887,073</u>                          | <u>391,214</u>          | <u>473,305</u>          | <u>481,148</u>                             | <u>5,560,712</u>               |
| Total liabilities<br>and fund<br>balances | <u>\$ 3,484,326</u> | <u>\$ 887,073</u>                       | <u>\$ 493,338</u>       | <u>\$ 560,493</u>       | <u>\$ 520,606</u>                          | <u>\$ 5,945,836</u>            |

The accompanying notes are an integral part of these financial statements.

## City of Petoskey

### RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

December 31, 2006

**Total Fund Balance - Governmental Funds** \$ 5,560,712

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their useful lives.

|                             |             |
|-----------------------------|-------------|
| Governmental capital assets | 25,019,693  |
| Accumulated depreciation    | (9,252,380) |

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds. (9,475)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

|                             |           |
|-----------------------------|-----------|
| Governmental bonds payable  | (785,000) |
| Landfill post closure costs | (85,000)  |

Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

2,721,335

**Net Assets of Governmental Activities** \$ 23,169,885

# City of Petoskey

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

Year ended December 31, 2006

|   | General<br>Fund     | Right-of-Way<br>Improvement<br>Fund | Major<br>Street<br>Fund | Local<br>Street<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------------------------|-------------------------|-------------------------|--|--------------------------------|
| <b>REVENUES</b>                               |                     |                                     |                         |                         |  |                                |
| Taxes   | \$ 3,546,668        | \$ 1,714,128                        | \$ -                    | \$ -                    | \$ -                                       | \$ 5,260,796                   |
| Special assessments                           | -                   | -                                   | -                       | -                       | 57,382                                     | 57,382                         |
| Licenses and permits                          | 10,006              | -                                   | -                       | -                       | -  | 10,006                         |
| State grants                                  | 575,360             | -                                   | 504,530                 | 150,013                 | -  | 1,229,903                      |
| Contributions from local units                | 55,112              | -                                   | -                       | -                       | -  | 55,112                         |
| Charges for services                          | 799,906             | -                                   | -                       | -                       | -  | 799,906                        |
| Fines and forfeits                            | 34,938              | -                                   | -                       | -                       | -  | 34,938                         |
| Interest and investment earnings              | 267,750             | 25,978                              | 10,746                  | 32,574                  | 29,311                                     | 366,359                        |
| Other   | 183,436             | -                                   | -                       | 436                     | 777  | 184,649                        |
| Total revenues                                | <u>5,473,176</u>    | <u>1,740,106</u>                    | <u>515,276</u>          | <u>183,023</u>          | <u>87,470</u>                              | <u>7,999,051</u>               |
| <b>EXPENDITURES</b>                           |                     |                                     |                         |                         |  |                                |
| Current                                       |                     |                                     |                         |                         |  |                                |
| Legislative                                   | 6,438               | -                                   | -                       | -                       | -  | 6,438                          |
| General government                            | 1,264,639           | -                                   | -                       | -                       | -  | 1,264,639                      |
| Public safety                                 | 2,515,716           | -                                   | -                       | -                       | -  | 2,515,716                      |
| Public works                                  | 641,322             | -                                   | 525,177                 | 301,049                 | 392,613                                    | 1,860,161                      |
| Health and welfare                            | 21,066              | -                                   | -                       | -                       | -  | 21,066                         |
| Recreational and cultural                     | 1,437,806           | -                                   | -                       | -                       | -  | 1,437,806                      |
| Other   | -                   | 1,595                               | -                       | -                       | -  | 1,595                          |
| Capital outlay                                | 349,221             | -                                   | 387,735                 | 529,097                 | 252,963                                    | 1,519,016                      |
| Debt service                                  |                     |                                     |                         |                         |  |                                |
| Principal                                     | -                   | -                                   | -                       | -                       | 155,000                                    | 155,000                        |
| Interest and fiscal charges                   | -                   | -                                   | -                       | -                       | 45,253                                     | 45,253                         |
| Total expenditures                            | <u>6,236,208</u>    | <u>1,595</u>                        | <u>912,912</u>          | <u>830,146</u>          | <u>845,829</u>                             | <u>8,826,690</u>               |
| <b>REVENUES (UNDER) OVER<br/>EXPENDITURES</b> | <u>(763,032)</u>    | <u>1,738,511</u>                    | <u>(397,636)</u>        | <u>(647,123)</u>        | <u>(758,359)</u>                           | <u>(827,639)</u>               |
| <b>OTHER FINANCING SOURCES (USES)</b>         |                     |                                     |                         |                         |  |                                |
| Operating transfers in                        | 1,647,425           | -                                   | 700,000                 | 650,000                 | 823,700                                    | 3,821,125                      |
| Operating transfer out                        | (123,700)           | (1,650,000)                         | (149,800)               | (149,400)               | -  | (2,072,900)                    |
| Transfers from component units                | 9,200               | -                                   | -                       | -                       | 80,000                                     | 89,200                         |
| Total other financing<br>sources (uses)       | <u>1,532,925</u>    | <u>(1,650,000)</u>                  | <u>550,200</u>          | <u>500,600</u>          | <u>903,700</u>                             | <u>1,837,425</u>               |
| <b>NET CHANGE IN FUND<br/>BALANCES</b>        | 769,893             | 88,511                              | 152,564                 | (146,523)               | 145,341                                    | 1,009,786                      |
| Fund balance, beginning of year               | <u>2,558,079</u>    | <u>798,562</u>                      | <u>238,650</u>          | <u>619,828</u>          | <u>335,807</u>                             | <u>4,550,926</u>               |
| Fund balance, end of year                     | <u>\$ 3,327,972</u> | <u>\$ 887,073</u>                   | <u>\$ 391,214</u>       | <u>\$ 473,305</u>       | <u>\$ 481,148</u>                          | <u>\$ 5,560,712</u>            |

The accompanying notes are an integral part of these financial statements.

## City of Petoskey

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2006

**Net Change in Fund Balances - Total Governmental Funds** **\$ 1,009,786**

Amounts reported for governmental activities in the statement of  
activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of these assets is  
allocated over their useful lives as depreciation.

|                                 |           |
|---------------------------------|-----------|
| Expenditures for capital assets | 1,167,279 |
| Current year depreciation       | (845,180) |

Repayment of bond principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
statement of net assets. This is the amount of principal paid on  
long-term debt. 155,000

Interest on long-term debt is recognized as an expenditure when it is  
due in the governmental funds. However, in the statement of  
activities, interest expense is recognized as the interest accrues,  
regardless of when it is due. 1,765

Internal service funds are used to charge costs of certain activities,  
such as insurance and motor vehicle usage, to various departments  
within the City. The net revenue (expense) of the internal service  
funds is included in governmental activities in the statement of  
activities. (325,891)

**Change in Net Assets of Governmental Activities** **\$ 1,162,759**

# City of Petoskey

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

December 31, 2006

|                                 | <u>Business-Type Activities - Enterprise Funds</u> |                                       |                      | <u>Governmental<br/>Activities -<br/>Internal<br/>Service Funds</u> |
|---------------------------------|--|---------------------------------------|----------------------|---|
|                                 | <u>Electric<br/>System</u>                         | <u>Water and<br/>Sewer<br/>System</u> | <u>Totals</u>        |   |
| <b>ASSETS</b>                   |  |                                       |                      |   |
| Current assets                  |  |                                       |                      |   |
| Cash                            | \$ 2,186,238                                       | \$ 1,883,712                          | \$ 4,069,950         | \$ 1,050,648  |
| Investments                     | 489,250  | 2,271,720                             | 2,760,970            | -   |
| Receivables                     |  |                                       |                      |   |
| Accounts                        | 1,438,246  | 550,610                               | 1,988,856            | -   |
| Due from other funds            | -  | 464                                   | 464                  | 61,556  |
| Due from component units        | -  | -                                     | -                    | 63  |
| Inventory                       | <u>831,593</u>                                     | <u>98,206</u>                         | <u>929,799</u>       | <u>33,646</u>   |
| Total current assets            | <u>4,945,327</u>                                   | <u>4,804,712</u>                      | <u>9,750,039</u>     | <u>1,145,913</u>  |
| Noncurrent assets               |  |                                       |                      |   |
| Restricted cash and investments |  |                                       |                      |   |
| Customer deposits               | 168,331  | 8,500                                 | 176,831              | -   |
| Sewage service covenants        | -  | 295,769                               | 295,769              | -   |
| Revenue bond covenants          | -  | 2,545,701                             | 2,545,701            | -   |
| MPPA energy charges             | 1,825,357  | -                                     | 1,825,357            | -   |
| Deferred charges                | -  | 101,748                               | 101,748              | -   |
| MPPA working capital advance    | 297,960  | -                                     | 297,960              | -   |
| Capital assets                  | 21,293,952   | 29,809,895                            | 51,103,847           | 4,454,871   |
| Less accumulated depreciation   | <u>(7,666,171)</u>                                 | <u>(8,856,424)</u>                    | <u>(16,522,595)</u>  | <u>(2,757,041)</u>  |
| Total noncurrent assets         | <u>15,919,429</u>                                  | <u>23,905,189</u>                     | <u>39,824,618</u>    | <u>1,697,830</u>  |
| Total assets                    | <u>\$ 20,864,756</u>                               | <u>\$ 28,709,901</u>                  | <u>\$ 49,574,657</u> | <u>\$ 2,843,743</u>   |

# City of Petoskey

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS - Continued

December 31, 2006

|   | <u>Business-Type Activities - Enterprise Funds</u> |                                       |                      | <u>Governmental<br/>Activities -<br/>Internal<br/>Service Funds</u> |
|---|--|---------------------------------------|----------------------|---|
|   | <u>Electric<br/>System</u>                         | <u>Water and<br/>Sewer<br/>System</u> | <u>Totals</u>        |   |
| <b>LIABILITIES AND NET ASSETS</b>   |  |                                       |                      |   |
| <b>CURRENT LIABILITIES</b>  |  |                                       |                      |   |
| Accounts payable  | \$ 445,231   | \$ 148,630                            | \$ 593,861           | \$ 22,101   |
| Accrued wages   | 5,389  | 7,520                                 | 12,909               | 450   |
| Due to other funds  | <u>13,543</u>                                      | <u>4,032</u>                          | <u>17,575</u>        | <u>434</u>  |
| Total current liabilities   | <u>464,163</u>                                     | <u>160,182</u>                        | <u>624,345</u>       | <u>22,985</u>   |
| <b>CURRENT LIABILITIES (payable from restricted assets)</b>   |  |                                       |                      |   |
| Current portion of revenue bonds  | -  | 465,000                               | 465,000              | -   |
| Accrued interest  | <u>-</u>   | <u>229,134</u>                        | <u>229,134</u>       | <u>-</u>  |
| Total current liabilities (payable<br>from restricted assets)   | <u>-</u>   | <u>694,134</u>                        | <u>694,134</u>       | <u>-</u>  |
| <b>NONCURRENT LIABILITIES</b>   |  |                                       |                      |   |
| Payable from restricted assets  |  |                                       |                      |   |
| Customer deposits   | 168,331  | 8,500                                 | 176,831              | -   |
| Compensated absences payable  | -  | -                                     | -                    | 99,423  |
| Revenue bonds (net current portion,<br>unamortized premiums and discounts,<br>and deferred amount on refunding) | <u>-</u>   | <u>11,115,040</u>                     | <u>11,115,040</u>    | <u>-</u>  |
| Total noncurrent liabilities  | <u>168,331</u>                                     | <u>11,123,540</u>                     | <u>11,291,871</u>    | <u>99,423</u>   |
| Total liabilities   | <u>632,494</u>                                     | <u>11,977,856</u>                     | <u>12,610,350</u>    | <u>122,408</u>  |
| <b>NET ASSETS</b>   |  |                                       |                      |   |
| Invested in capital assets, net of debt   | 13,627,781   | 9,373,431                             | 23,001,212           | 1,697,830   |
| Restricted for sewage service covenants   | -  | 295,769                               | 295,769              | -   |
| Restricted for revenue bond indentures  | -  | 2,545,701                             | 2,545,701            | -   |
| Restricted for MPPA energy expenses   | 1,825,357  | -                                     | 1,825,357            | -   |
| Unrestricted  | <u>4,779,124</u>                                   | <u>4,517,144</u>                      | <u>9,296,268</u>     | <u>1,023,505</u>  |
| Total net assets  | <u>20,232,262</u>                                  | <u>16,732,045</u>                     | <u>36,964,307</u>    | <u>2,721,335</u>  |
| Total liabilities and net assets  | <u>\$ 20,864,756</u>                               | <u>\$ 28,709,901</u>                  | <u>\$ 49,574,657</u> | <u>\$ 2,843,743</u>   |

The accompanying notes are an integral part of these financial statements.



# City of Petoskey

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

Year ended December 31, 2006

|   | <u>Business-Type Activities - Enterprise Funds</u> |                     |                       | <u>Governmental</u>          |
|---|--|---------------------|-----------------------|------------------------------|
|   | <u>Electric</u>                                    | <u>Water and</u>    | <u>Totals Current</u> | <u>Activities - Internal</u> |
|   | <u>System</u>                                      | <u>Sewer System</u> | <u>Year</u>           | <u>Service Funds</u>         |
| <b>Operating revenue</b>                        |  |                     |                       |                              |
| Charges for services                            | \$ 9,330,147                                       | \$ 4,062,369        | \$ 13,392,516         | \$ 2,630,571                 |
| <b>Operating expenses</b>                       |  |                     |                       |                              |
| Purchased power                                 | 6,021,152  | -                   | 6,021,152             | -                            |
| Personal services                               | 346,357  | 515,392             | 861,749               | 70,092                       |
| Contractual services                            | 431,611  | 1,009,188           | 1,440,799             | 2,372,213                    |
| Supplies  | 3,145  | 16,581              | 19,726                | 148,982                      |
| Materials                                       | 118,060  | 324,184             | 442,244               | -                            |
| Heat, light and power                           | 344  | 341,435             | 341,779               | -                            |
| Depreciation                                    | 599,888  | 738,889             | 1,338,777             | 326,050                      |
| Rent  | 21,000   | 31,000              | 52,000                | -                            |
| Total operating expenses                        | 7,541,557  | 2,976,669           | 10,518,226            | 2,917,337                    |
| <b>OPERATING INCOME (LOSS)</b>                  | 1,788,590  | 1,085,700           | 2,874,290             | (286,766)                    |
| <b>Nonoperating revenues</b>                    |  |                     |                       |                              |
| Unrestricted interest and investment earnings   | 350,679  | 47,378              | 398,057               | 48,963                       |
| Restricted interest and investment earnings     | 71,992   | -                   | 71,992                | -                            |
| Rent  | 110,700  | -                   | 110,700               | -                            |
| Sewage service covenant                         | -  | 85,525              | 85,525                | -                            |
| Construction                                    | -  | 19,961              | 19,961                | -                            |
| Miscellaneous                                   | 336,173  | -                   | 336,173               | 12,437                       |
| Total nonoperating revenues                     | 869,544  | 152,864             | 1,022,408             | 61,400                       |
| <b>Nonoperating expenses</b>                    |  |                     |                       |                              |
| Personal services                               | 25,570   | 356                 | 25,926                | -                            |
| Contractual services                            | 119,413  | -                   | 119,413               | -                            |
| Supplies  | 30,402   | -                   | 30,402                | -                            |
| Materials                                       | 9,170  | -                   | 9,170                 | -                            |
| Heat, light and power                           | 34,014   | -                   | 34,014                | -                            |
| Interest  | -  | 577,826             | 577,826               | -                            |
| Depreciation                                    | 18,622   | -                   | 18,622                | -                            |
| Amortization                                    | -  | 9,250               | 9,250                 | -                            |
| Other expenses                                  | -  | 500                 | 500                   | -                            |
| Total nonoperating expenses                     | 237,191  | 587,932             | 825,123               | -                            |
| Total nonoperating revenues (expenses)          | 632,353  | (435,068)           | 197,285               | 61,400                       |
| <b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b> | 2,420,943  | 650,632             | 3,071,575             | (225,366)                    |
| <b>Other financing sources (uses)</b>           |  |                     |                       |                              |
| Operating transfers out                         | (887,700)  | (760,000)           | (1,647,700)           | (100,525)                    |
| <b>Capital contributions</b>                    | 20,996   | 74,125              | 95,121                | -                            |
| <b>CHANGE IN NET ASSETS</b>                     | 1,554,239  | (35,243)            | 1,518,996             | (325,891)                    |
| <b>Net assets, beginning of year</b>            | 18,678,023   | 16,767,288          | 35,445,311            | 3,047,226                    |
| <b>Net assets, end of year</b>                  | \$ 20,232,262                                      | \$ 16,732,045       | \$ 36,964,307         | \$ 2,721,335                 |

The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended December 31, 2006

|   | <u>Business-Type Activities - Enterprise Funds</u> |                                       |                                | <u>Governmental<br/>Activities -<br/>Internal Service<br/>Funds</u> |
|---|--|---------------------------------------|--------------------------------|---|
|   | <u>Electric<br/>System</u>                         | <u>Water and<br/>Sewer<br/>System</u> | <u>Totals<br/>Current Year</u> |   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |                                       |                                |   |
| Cash received from customers  | \$ 9,382,320                                       | \$ 4,060,757                          | \$ 13,443,077                  | \$ 3,002,482  |
| Cash payments to suppliers for goods and services                                       | (7,486,581)  | (1,658,160)                           | (9,144,741)                    | (2,474,113)   |
| Cash payments to employees for services   | (222,690)  | (336,070)                             | (558,760)                      | (17,262)  |
| Cash payments to other funds for services   | (236,801)  | (299,195)                             | (535,996)                      | (64,061)  |
| Net cash provided by operating activities   | <u>1,436,248</u>                                   | <u>1,767,332</u>                      | <u>3,203,580</u>               | <u>447,046</u>  |
| <b>CASH FLOWS FROM NON-CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b>                 |  |                                       |                                |   |
| Operating transfers-out to other funds  | (887,700)  | (760,000)                             | (1,647,700)                    | (100,525)   |
| Increase (decrease) in customer deposits  | <u>(16,082)</u>                                    | <u>1,000</u>                          | <u>(15,082)</u>                | <u>-</u>  |
| Net cash used by non-capital and related<br>financing activities                        | <u>(903,782)</u>                                   | <u>(759,000)</u>                      | <u>(1,662,782)</u>             | <u>(100,525)</u>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>                     |  |                                       |                                |   |
| Acquisition and construction of capital assets  | (3,597,614)  | (297,041)                             | (3,894,655)                    | (245,228)   |
| Principal paid on revenue bonds and contracts<br>payable                                | -  | (370,000)                             | (370,000)                      | -   |
| Interest paid on revenue bonds and contracts payable                                    | -  | (582,659)                             | (582,659)                      | -   |
| Capital contributed by customers  | 20,996   | 74,125                                | 95,121                         | -   |
| Net cash provided by rental, construction and<br>miscellaneous non-operating activities | <u>250,647</u>                                     | <u>122,763</u>                        | <u>373,410</u>                 | <u>12,437</u>   |
| Net cash used by capital and related financing<br>activities                            | <u>(3,325,971)</u>                                 | <u>(1,052,812)</u>                    | <u>(4,378,783)</u>             | <u>(232,791)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |                                       |                                |   |
| Purchase of investments (net)   | 2,611,675  | (2,853,601)                           | (241,926)                      | -   |
| Interest received   | <u>422,671</u>                                     | <u>47,378</u>                         | <u>470,049</u>                 | <u>48,963</u>   |
| Net cash provided (used) by investing<br>activities                                     | <u>3,034,346</u>                                   | <u>(2,806,223)</u>                    | <u>228,123</u>                 | <u>48,963</u>   |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <u>240,841</u>                                     | <u>(2,850,703)</u>                    | <u>(2,609,862)</u>             | <u>162,693</u>  |
| Cash, beginning of year   | <u>2,113,728</u>                                   | <u>5,206,043</u>                      | <u>7,319,771</u>               | <u>887,955</u>  |
| Cash, end of year   | <u>\$ 2,354,569</u>                                | <u>\$ 2,355,340</u>                   | <u>\$ 4,709,909</u>            | <u>\$ 1,050,648</u>   |
| Current assets  | \$ 2,186,238                                       | \$ 1,883,712                          | \$ 4,069,950                   | \$ 1,050,648  |
| Restricted assets   | <u>168,331</u>                                     | <u>471,628</u>                        | <u>639,959</u>                 | <u>-</u>  |
| Totals  | <u>\$ 2,354,569</u>                                | <u>\$ 2,355,340</u>                   | <u>\$ 4,709,909</u>            | <u>\$ 1,050,648</u>   |

The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued

Year ended December 31, 2006

|   | Business-Type Activities - Enterprise Funds |                              |                        | Governmental<br>Activities -<br>Internal Service<br>Funds |
|---|---|------------------------------|------------------------|---|
|   | Electric<br>System                          | Water and<br>Sewer<br>System | Totals Current<br>Year |   |
| Reconciliation of operating income to net cash provided<br>by operating activities        |   |                              |                        |   |
| Operating income (loss)   | \$ 1,788,590                                | \$ 1,085,700                 | \$ 2,874,290           | \$ (286,766)  |
| Adjustments to reconcile operating income to net<br>cash provided by operating activities |   |                              |                        |   |
| Depreciation  | 599,888                                     | 738,889                      | 1,338,777              | 326,051   |
| (Increase) decrease in accounts receivable  | 52,173                                      | (1,612)                      | 50,561                 | -   |
| (Increase) decrease in inventory  | (292,790)                                   | (5,753)                      | (298,543)              | 4,649   |
| (Increase) decrease in prepaid expenses   | (101,240)                                   | -                            | (101,240)              | 66,311  |
| (Increase) decrease in due from other funds   | 10,725                                      | (5,827)                      | 4,898                  | 347,781   |
| Decrease in due from other component<br>units   | -   | -                            | -                      | 24,130  |
| Increase (decrease) in accounts payable   | (573,238)                                   | 38,980                       | (534,258)              | (82,778)  |
| Increase in accrued expenses  | 1,703                                       | 3,965                        | 5,668                  | 52,829  |
| Decrease in due to other funds  | (23,210)                                    | (87,010)                     | (110,220)              | (5,161)   |
| Decrease in due to other governmental<br>units  | (26,353)                                    | -                            | (26,353)               | -   |
| Total adjustments   | (352,342)                                   | 681,632                      | 329,290                | 733,812   |
| Net cash provided by operating<br>activities  | <u>\$ 1,436,248</u>                         | <u>\$ 1,767,332</u>          | <u>\$ 3,203,580</u>    | <u>\$ 447,046</u>   |

# City of Petoskey

## STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2006

|   | Employees<br>Retirement<br>Trust Fund | Library<br>Endowment<br>Trust Fund | Agency<br>Funds     |
|---|---------------------------------------|------------------------------------|---------------------|
| <b>ASSETS</b>   |                                       |                                    |                     |
| Cash  | \$ -                                  | \$ 7,567                           | \$ 1,856,948        |
| Investments   | 212,161                               | -                                  | -                   |
| Receivables   |                                       |                                    |                     |
| Taxes   | -                                     | -                                  | 4,129,144           |
| Loans   | 23,130                                | -                                  | -                   |
|   | <u>235,291</u>                        | <u>7,567</u>                       | <u>5,986,092</u>    |
| Total assets  | <u>\$ 235,291</u>                     | <u>\$ 7,567</u>                    | <u>\$ 5,986,092</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>                 |                                       |                                    |                     |
| <b>LIABILITIES</b>                                    |                                       |                                    |                     |
| Accounts payable                                      | \$ -                                  | \$ -                               | \$ 15,021           |
| Due to other funds                                    | -                                     | -                                  | 519,963             |
| Due to component unit                                 | -                                     | -                                  | 74,528              |
| Due to other governmental units                       | -                                     | -                                  | 5,376,580           |
|   | <u>-</u>                              | <u>-</u>                           | <u>5,986,092</u>    |
| Total liabilities                                     | -                                     | -                                  | 5,986,092           |
| <br><b>NET ASSETS</b>                                 |                                       |                                    |                     |
| Held in trust for pension benefits and other purposes | <u>235,291</u>                        | <u>7,567</u>                       | <u>-</u>            |
|   | <u>\$ 235,291</u>                     | <u>\$ 7,567</u>                    | <u>\$ 5,986,092</u> |

# City of Petoskey

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended December 31, 2006

|                                      | Employees<br>Retirement Trust<br>Fund | Library<br>Endowment<br>Trust Fund |
|--------------------------------------|---------------------------------------|------------------------------------|
| <b>ADDITIONS TO NET ASSETS</b>       |                                       |                                    |
| Contributions                        |                                       |                                    |
| Employer                             | \$ 8,771                              | \$ -                               |
| Private donations                    | <u>-</u>                              | <u>41,411</u>                      |
| Total contributions                  | 8,771                                 | 41,411                             |
| Net investment earnings              |                                       |                                    |
| Interest and unrealized gains/losses | <u>9,305</u>                          | <u>221</u>                         |
| Total additions                      | <u>18,076</u>                         | <u>41,632</u>                      |
| <b>DEDUCTIONS FROM NET ASSETS</b>    |                                       |                                    |
| Miscellaneous expenses               | -                                     | 47,104                             |
| Administrative expenses              | 35                                    | -                                  |
| Transfers out                        | <u>-</u>                              | <u>2,872</u>                       |
| Total deductions                     | <u>35</u>                             | <u>49,976</u>                      |
| <b>NET CHANGE IN NET ASSETS</b>      | 18,041                                | (8,344)                            |
| Net assets, beginning of year        | <u>217,250</u>                        | <u>15,911</u>                      |
| Net assets, end of year              | <u><u>\$ 235,291</u></u>              | <u><u>\$ 7,567</u></u>             |

# City of Petoskey

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Introduction***

The City of Petoskey (the "City") was incorporated November 4, 1924, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

#### ***The Financial Reporting Entity***

The City's financial statements include the accounts of all City operations. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the City is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

Based on this criteria, the City has identified the following blended and discretely presented component units requiring inclusion in the City's financial statements and other jointly governed organizations evaluated:

#### **Blended Component Unit**

***City of Petoskey Building Authority*** - The City of Petoskey Building Authority is governed by a three member board appointed by the City of Petoskey. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to provide financing for the construction of buildings, parking lots, recreational facilities and to acquire the necessary sites for such facilities. Separate financial statements for the City of Petoskey Building Authority may be obtained by contacting the City's Director of Finance, 101 East Lake Street, Petoskey, Michigan 49770.

#### **Discretely Presented Component Units**

***Tax Increment Finance Authority*** - The Tax Increment Finance Authority, which was established pursuant to the provisions of Public Act 450 of 1980, as amended, is governed by an eight-person board appointed by the City Council. The Authority may issue debt subject to limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Tax Increment Finance Authority are not issued.

## NOTES TO FINANCIAL STATEMENTS - Continued

**Library** - The City Library, which was established pursuant to the provisions of Public Act 164 of 1877, as amended, and City charter as adopted on August 7, 1984, is governed by a five-person commission appointed by the mayor. The commission may not issue debt and the tax levy is subject to approval by the City Council. Separate financial statements for the City Library are not issued.

**Downtown Management Board (Downtown Management/Parking)** - The Downtown Management Board was established in February of 1994 pursuant to the provisions of Public Act 120 of 1961. By a resolution dated February 1, 2000, responsibilities for operating and maintaining the City's downtown area parking system and facilities were transferred to the Downtown Management Board. Separate financial statements for the Downtown Management Board are not issued.

### ***Government-Wide and Fund Financial Statements***

The City of Petoskey's basic financial statements include both government-wide (reporting the City as a whole) and the fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

### ***Government-Wide Financial Statements***

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide statement of net assets, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

## NOTES TO FINANCIAL STATEMENTS - Continued

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

### *Fund Financial Statements*

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The balance sheets; statements of revenues, expenditures/expenses and changes in fund balances/net assets; and statements of cash flows (i.e., fund financial statements) for the City's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund assets, liabilities, revenues or expenditures.

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the City are prepared in accordance with *Generally Accepted Accounting Principles* ("GAAP"). The City applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.



## NOTES TO FINANCIAL STATEMENTS - Continued

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on the accrual basis which is consistent with the accounting measurement objectives of the funds.

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

#### Governmental Funds

**General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and State shared revenue.

**Right-of-way Improvement Fund** - The Right-of-Way Improvement Fund is used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

**Major Street Fund** - The Major Street Fund accounts for State gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

**Local Street Fund** - The Local Street Fund accounts for State gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's local streets.

#### Proprietary Funds

**Electric Fund** - This fund is an enterprise fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

## NOTES TO FINANCIAL STATEMENTS - Continued

**Water and Sewer Fund** - This fund is an enterprise fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

### *Activities in Non-Major Funds*

#### Governmental Funds

**Special Revenue Funds** - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The City maintains the General Street Fund and the Downtown Management Fund.

**Debt Service Funds** - These funds are used to record revenues which are restricted or otherwise provided for the payment of principal and interest on general long-term debt.

#### Proprietary Funds

**Internal Service Funds** - These funds account for the cost of acquiring, maintaining and providing equipment and services for the benefit of other funds, generally on a cost-reimbursement basis.

#### Fiduciary Funds

**Trust and Agency Funds** - These funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

### *Budgets and Budgetary Accounting*

Budgets are adopted by the City Council for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the fund level.

The City does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

### *Cash and Investments*

The City pools financial resources of its various funds to facilitate the management of cash and investments. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in bank certificates of deposit and in various interest-bearing securities.

For the purpose of the statement of cash flows, the City considers all highly liquid investments, including all certificates of deposit and all restricted investments, with a maturity of 90 days or less, to be cash equivalents.

## NOTES TO FINANCIAL STATEMENTS - Continued

Cash deposits are reported at carrying amount which reasonably estimates fair value. Short-term investments are reported at cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

### ***Property Taxes***

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

Taxes receivable are considered to be available to fund current operations, even if collection occurs beyond 60 days, if they are purchased by the Emmet County delinquent tax collection program.

### ***Interfund Transactions and Balances***

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Due to/from other funds are short-term interfund balances that occur in the normal course of operations. Advances to/from other funds are long-term interfund financing arrangements. Outstanding balances on the government-wide statement of net assets are captioned "internal balances."

Operating transfers in and out arise in the normal course of operations from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

### ***Inventories***

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Special Revenue Funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Fund balance has been reserved for inventory in governmental funds.

### ***Capital Assets***

Property, plant and equipment used in proprietary funds are stated in a manner consistent with the presentation in the entity-wide financial statements. Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

| <u>Asset Type</u> | <u>Amount</u> |
|-------------------|---------------|
| Land              | \$ 1          |
| Equipment         | 5,000         |
| Buildings         | 50,000        |
| Infrastructure    | 100,000       |

## NOTES TO FINANCIAL STATEMENTS - Continued

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

|                            |               |
|----------------------------|---------------|
| Buildings                  | 20 - 60 years |
| Building improvements      | 15 - 30 years |
| Land improvements          | 10 - 20 years |
| Water and sewer lines      | 50 - 75 years |
| Streets, curbs and gutters | 10 - 30 years |
| Sidewalks                  | 20 years      |
| Vehicles                   | 3 - 5 years   |
| Furniture and equipment    | 10 - 20 years |
| Office equipment           | 5 - 7 years   |

### ***Long-term Obligations***

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### ***Restricted Assets***

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

### ***Compensated Absences (Personal, Vacation and Sick Time)***

All employees are entitled to 56 hours of personal time starting on December 1. The City reimburses all employees for any unused portion, on an annual basis. Vacation days not used during the year may not be accumulated. Unpaid sick time accrued represents sick time accumulated before December 1, 1990 and payable to eligible employees on termination. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time.

## NOTES TO FINANCIAL STATEMENTS - Continued

Accumulated unpaid vacation, sick pay and other employee benefit amounts are provided for on a timely basis by accrual, when incurred by all funds, in the Employee Fringe Benefit Fund (a proprietary fund using the accrual basis of accounting). All vacation, sick pay and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when a payment is made to the Fringe Benefit Fund.

### ***Fund Equity***

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of Proprietary Funds represent the net assets that have not been legally identified for specific purposes.

### ***Use of Estimates***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

## **NOTE B - BUDGETARY COMPLIANCE**

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2006, the City incurred expenditures in the Local Street Fund which were in excess of the amounts appropriated by \$76,047.

## **NOTE C - DEPOSITS AND INVESTMENTS**

The funds of the City are deposited and invested as permitted under Act 20 P.A. 1943, as amended by Act 196 P.A. 1997. Pension trust funds are invested as permitted under Act 314 P.A. 1965, as amended.

At December 31, 2006, the City's cash and investments include the following:

|                      | <u>Primary Government</u> |                     | <u>Component Unit</u> |                    | <u>Fiduciary Funds</u> |                    |
|----------------------|---------------------------|---------------------|-----------------------|--------------------|------------------------|--------------------|
|                      | <u>Deposits</u>           | <u>Investments</u>  | <u>Deposits</u>       | <u>Investments</u> | <u>Deposits</u>        | <u>Investments</u> |
| Carrying amounts     |                           |                     |                       |                    |                        |                    |
| Cash and equivalents | \$ 8,352,465              | \$ -                | \$ 941,146            | \$ -               | \$ 1,864,515           | \$ -               |
| Restricted assets    | 639,959                   | 4,203,699           | -                     | -                  | -                      | -                  |
| Investments          | <u>822,024</u>            | <u>3,617,813</u>    | <u>65,155</u>         | <u>97,920</u>      | <u>-</u>               | <u>212,161</u>     |
|                      | <u>\$ 9,814,448</u>       | <u>\$ 7,821,512</u> | <u>\$ 1,006,301</u>   | <u>\$ 97,920</u>   | <u>\$ 1,864,515</u>    | <u>\$ 212,161</u>  |

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Deposits*

Michigan law permits the City to deposit in the accounts of Federally insured banks, credit unions and savings and loans associations located in Michigan.

### *Custodial Credit Risk*

In the event of bank failure, the City's uninsured deposits may not be returned to it. As of December 31, 2006, \$12,510,838 of the City's deposits (including certificates of deposit) were exposed to custodial credit risk because they were uninsured and uncollateralized.

### *Investments*

Michigan law permits the City to invest in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit, savings, deposit and money market accounts.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain obligations of the State of Michigan or its political subdivisions.
7. Certain mutual funds.
8. Certain investment pools.

At December 31, 2006, the City's investments consisted of the following:

| <u>Investment Type</u>                 | <u>Fair Market Value</u> | <u>Weighted Average Maturity (Years)</u> |
|--|--------------------------|--|
| Certificates of Deposit                | \$ 887,179               | \$ 2.14                                  |
| Federal Home Loan Bank                 | 4,506,905                | 6.98                                     |
| Federal National Mortgage Associations | 1,587,170                | 12.76                                    |
| MPPA Investment Pools                  | 1,825,357                | 8.10                                     |
| Money Market Mutual Fund               | <u>212,161</u>           | -  |
| Total portfolio                        | <u>\$ 9,018,772</u>      | 7.57                                     |

### *Credit Risk*

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: Limiting investments to the type of securities allowed by law and pre-qualifying the financial institution, broker/dealers, intermediaries and advisors with which the City will do business.

The City's policy does not further limit its investment choices. The certificates of deposit are insured by the FDIC for up to \$364,449. Moody's Investor Service rated the City's investments in the Federal Home Loan Bank and the Federal National Mortgage Association AAA. Moody's rated the City's mutual fund investments Aal. There is no regulatory oversight of the MPPA Investment Pool and no overall credit quality rating of the pool.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Concentration of Credit Risk*

The City places no limit on the amount it may invest in any one issuer. Investments not guaranteed by the U.S. Government that represent more than 5% of the City's investments, include a Flagstar Bank Certificate of Deposit. This investment is 6.34% of the City's total investments.

### *Interest Rate Risk*

The City does not have a formal investment policy that limits investor maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## **NOTE D - PROPERTY TAXES**

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$10 per \$1,000 of taxable valuation for general governmental services other than the payment of principal and interest of long-term debt and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The City is also permitted by charter to levy taxes up to \$5 per \$1,000 of taxable valuation for right-of-way improvements. The City is permitted by State law to levy up to \$1 per \$1,000 of taxable valuation for the public library and \$2 per \$1,000 of taxable valuation for refuse collection. If approved by a majority of the voters, the City may increase the tax levied by an additional \$1 per \$1,000 of taxable valuation for the public library. The 2006 State taxable valuation of the City of Petoskey totaled \$53,115,096.

The tax rates for the year-ended December 31, 2006 were as follows:

| <u>Purpose</u>                           | <u>Rate/Taxable Valuation</u> |
|--|-------------------------------|
| General governmental services            | 7.4940 per \$1,000            |
| Right-of-way improvements                | 3.8580 per \$1,000            |
| Library                                  | 0.8600 per \$1,000            |
| Library (additional, approved by voters) | 0.9050 per \$1,000            |
| Refuse collection                        | 0.4890 per \$1,000            |

## **NOTE E - INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables within the primary government are as follows:

|                                   | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|-----------------------------------|------------------------------|---------------------------|
| General Fund                      | \$ 354,815                   | \$ 11,555                 |
| Right-of-Way Improvement Fund     | 164,002                      | -                         |
| Major Street Fund                 | -                            | 75,384                    |
| Local Street Fund                 | -                            | 35,283                    |
| Electric Fund                     | -                            | 13,543                    |
| Water and Sewer Fund              | 464                          | 4,032                     |
| Other Nonmajor Governmental Funds | 81,526                       | 2,169                     |
| Internal Service Funds            | 61,556                       | 434                       |
| Fiduciary Funds                   | -                            | 519,963                   |
| Total                             | <u>\$ 662,363</u>            | <u>\$ 662,363</u>         |

## NOTES TO FINANCIAL STATEMENTS - Continued

The amounts of interfund receivables and payables between the primary government and the component units are as follows:

|                                   | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|-----------------------------------|----------------------------------|-------------------------------|
| Library Fund                      | \$ 74,528                        | \$ -                          |
| Other Nonmajor Component Units    | -                                | 72                            |
| Other Nonmajor Governmental Funds | 9                                | -                             |
| Internal Service Funds            | 63                               | -                             |
| Fiduciary Funds                   | <u>-</u>                         | <u>74,528</u>                 |
| Total                             | <u>\$ 74,600</u>                 | <u>\$ 74,600</u>              |

The interfund balances are mainly for property taxes, material and inventory usage, building rent, fringe benefits and equipment.

### NOTE F - INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

|                                   | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------------|---------------------|----------------------|
| General Fund                      | \$ 1,647,425        | \$ 123,700           |
| Right-of-Way Improvement Fund     | -                   | 1,650,000            |
| Major Street Fund                 | 700,000             | 149,800              |
| Local Street Fund                 | 650,000             | 149,400              |
| Electric Fund                     | -                   | 887,700              |
| Water and Sewer Fund              | -                   | 760,000              |
| Other Nonmajor Governmental Funds | 823,700             | -                    |
| Internal Service Funds            | <u>-</u>            | <u>100,525</u>       |
| Total                             | <u>\$ 3,821,125</u> | <u>\$ 3,821,125</u>  |

Operating transfers between the primary government and the component units are as follows:

|                                   | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------------|---------------------|----------------------|
| Other Nonmajor Component Units    | \$ -                | \$ 89,200            |
| General Fund                      | 9,200               | -                    |
| Other Nonmajor Governmental Funds | <u>80,000</u>       | <u>-</u>             |
| Total                             | <u>\$ 89,200</u>    | <u>\$ 89,200</u>     |



## NOTES TO FINANCIAL STATEMENTS - Continued

The operating transfers are mainly for street improvements, debt service and general City operations. Enterprise fund payments in lieu of taxes, classified as transfers to the General Fund above, were as follows:

|                      |                   |
|----------------------|-------------------|
| Electric Fund        | <u>\$ 121,800</u> |
| Water and Sewer Fund | <u>\$ 288,800</u> |

### NOTE G - CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2006:

#### Governmental Activities

|  | <u>Beginning</u>     | <u>Capital<br/>Acquisitions</u> | <u>Sales and<br/>Other<br/>Dispositions</u> | <u>Ending</u>        |
|--|----------------------|---------------------------------|---|----------------------|
| Capital assets not being depreciated       |                      |                                 |   |                      |
| Land                                       | \$ 1,887,069         | \$ -                            | \$ -  | \$ 1,887,069         |
| Capital assets being depreciated           |                      |                                 |   |                      |
| Land improvements                          | 628,636              | -                               | -   | 628,636              |
| Buildings                                  | 3,942,846            | -                               | -   | 3,942,846            |
| Equipment                                  | 5,136,803            | 245,229                         | (140,366)                                   | 5,241,666            |
| Infrastructure                             | <u>16,607,068</u>    | <u>1,167,279</u>                | <u>-</u>                                    | <u>17,774,347</u>    |
| Subtotal                                   | <u>26,315,353</u>    | <u>1,412,508</u>                | <u>(140,366)</u>                            | <u>27,587,495</u>    |
| Less accumulated depreciation              |                      |                                 |   |                      |
| Land improvements                          | (191,234)            | (39,358)                        | -   | (230,592)            |
| Buildings                                  | (1,629,099)          | (98,327)                        | -   | (1,727,426)          |
| Equipment                                  | (2,956,659)          | (368,919)                       | 140,366                                     | (3,185,212)          |
| Infrastructure                             | <u>(6,201,565)</u>   | <u>(664,626)</u>                | <u>-</u>                                    | <u>(6,866,191)</u>   |
| Subtotal                                   | <u>(10,978,557)</u>  | <u>(1,171,230)</u>              | <u>140,366</u>                              | <u>(12,009,421)</u>  |
| Net capital assets being depreciated       | <u>15,336,796</u>    | <u>241,278</u>                  | <u>-</u>                                    | <u>15,578,074</u>    |
| Governmental activities net capital assets | <u>\$ 17,223,865</u> | <u>\$ 241,278</u>               | <u>\$ -</u>                                 | <u>\$ 17,465,143</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

**Business-Type Activities**

|   | <u>Beginning</u>     | <u>Capital<br/>Acquisitions</u> | <u>Sales and<br/>Other<br/>Dispositions</u> | <u>Ending</u>        |
|---|----------------------|---------------------------------|---|----------------------|
| Capital assets not being depreciated        |                      |                                 |   |                      |
| Land  | \$ 837,856           | \$ -                            | \$ -  | \$ 837,856           |
| Capital assets being depreciated            |                      |                                 |   |                      |
| Buildings                                   | \$ 16,898,152        | \$ 548,984                      | \$ -  | \$ 17,447,136        |
| Utility system improvements                 | 28,769,461           | 3,345,671                       | -   | 32,115,132           |
| Equipment                                   | <u>703,723</u>       | <u>-</u>                        | <u>-</u>                                    | <u>703,723</u>       |
| Subtotal                                    | <u>46,371,336</u>    | <u>3,894,655</u>                | <u>-</u>                                    | <u>50,265,991</u>    |
| Less accumulated depreciation               |                      |                                 |   |                      |
| Buildings                                   | (5,597,472)          | (453,348)                       | -   | (6,050,820)          |
| Utility system improvements                 | (8,873,363)          | (894,689)                       | -   | (9,768,052)          |
| Equipment                                   | <u>(694,362)</u>     | <u>(9,361)</u>                  | <u>-</u>                                    | <u>(703,723)</u>     |
| Subtotal                                    | <u>(15,165,197)</u>  | <u>(1,357,398)</u>              | <u>-</u>                                    | <u>16,522,595)</u>   |
| Net capital assets being depreciated        | <u>31,206,139</u>    | <u>2,537,257</u>                | <u>-</u>                                    | <u>33,743,396</u>    |
| Business-type activities net capital assets | <u>\$ 32,043,995</u> | <u>\$ 2,537,257</u>             | <u>\$ -</u>                                 | <u>\$ 34,581,252</u> |

Depreciation expense was charged to programs of the primary government as follows:

**Governmental activities**

|  |                     |
|--|---------------------|
| Unallocated  | \$ 845,180          |
| Internal service fund capital assets consolidated with the governmental activities | <u>326,050</u>      |
| Total governmental activities  | <u>\$ 1,171,230</u> |

**Business-type activities**

|                                |                     |
|--------------------------------|---------------------|
| Water and sewer                | \$ 738,889          |
| Electric                       | <u>618,509</u>      |
| Total business-type activities | <u>\$ 1,357,398</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

**Component Units**

|  | <u>Beginning</u>    | <u>Capital<br/>Acquisitions</u> | <u>Sales and<br/>Other<br/>Dispositions</u> | <u>Ending</u>       |
|--|---------------------|---------------------------------|---|---------------------|
| Capital assets being depreciated       |                     |                                 |   |                     |
| Land improvements                      | \$ 102,360          | \$ -                            | \$ -  | \$ 102,360          |
| Buildings                              | 5,878,591           | -                               | -   | 5,878,591           |
| Equipment                              | 632,635             | -                               | -   | 632,635             |
| Books                                  | <u>946,932</u>      | <u>38,151</u>                   | <u>-</u>                                    | <u>985,083</u>      |
| Subtotal                               | <u>7,560,518</u>    | <u>38,151</u>                   | <u>-</u>                                    | <u>7,598,669</u>    |
| Less accumulated depreciation          |                     |                                 |   |                     |
| Land improvements                      | (2,580)             | (5,118)                         | -   | (7,698)             |
| Buildings                              | (475,292)           | (155,492)                       | -   | (630,784)           |
| Equipment                              | (151,876)           | (31,632)                        | -   | (183,508)           |
| Books                                  | <u>(559,654)</u>    | <u>(29,851)</u>                 | <u>-</u>                                    | <u>(589,505)</u>    |
| Subtotal                               | <u>(1,189,402)</u>  | <u>(222,093)</u>                | <u>-</u>                                    | <u>(1,411,495)</u>  |
| Component units' net<br>capital assets | <u>\$ 6,371,116</u> | <u>\$ (183,942)</u>             | <u>\$ -</u>                                 | <u>\$ 6,187,174</u> |

**Proprietary Fund Type Property, Plant and Equipment**

Proprietary fund type property, plant and equipment at December 31, 2006 are summarized as follows:

|                               | <u>Enterprise</u>    | <u>Internal Service</u> |
|-------------------------------|----------------------|-------------------------|
| Land                          | \$ 837,856           | \$ -                    |
| Buildings                     | 17,447,136           | 11,011                  |
| Utility system improvements   | 32,115,132           | -                       |
| Equipment                     | <u>703,723</u>       | <u>4,443,860</u>        |
| Total                         | 51,103,847           | 4,454,871               |
| Less accumulated depreciation | <u>(16,522,595)</u>  | <u>(2,757,041)</u>      |
| Net                           | <u>\$ 34,581,252</u> | <u>\$ 1,697,830</u>     |

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE H - LONG-TERM DEBT**

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2006:

|   | <u>Beginning<br/>Balance</u> | <u>New<br/>Debt</u> | <u>Payments</u>   | <u>Ending<br/>Balance</u> | <u>Current<br/>Portion</u> |
|---|------------------------------|---------------------|-------------------|---------------------------|----------------------------|
| <b>PRIMARY GOVERNMENT</b>                                 |                              |                     |                   |                           |                            |
| <b>Governmental activities</b>                            |                              |                     |                   |                           |                            |
| Bonds and notes payable                                   |                              |                     |                   |                           |                            |
| General obligation debt                                   | \$ 940,000                   | \$ -                | \$ 155,000        | \$ 785,000                | \$ 150,000                 |
| Other liabilities   |                              |                     |                   |                           |                            |
| Compensated absences                                      | 46,227                       | 7,572               | 3,515             | 50,284                    | -                          |
| Landfill postclosure costs                                | <u>85,000</u>                | <u>-</u>            | <u>-</u>          | <u>85,000</u>             | <u>-</u>                   |
| Total governmental<br>activities long-term<br>liabilities | <u>\$ 1,071,227</u>          | <u>\$ 7,572</u>     | <u>\$ 158,515</u> | <u>\$ 920,284</u>         | <u>\$ 150,000</u>          |
| <b>Business-type activities</b>                           |                              |                     |                   |                           |                            |
| Bonds and notes payable                                   |                              |                     |                   |                           |                            |
| Revenue obligation debt                                   | <u>\$ 12,190,000</u>         | <u>\$ -</u>         | <u>\$ 370,000</u> | <u>\$ 11,820,000</u>      | <u>\$ 465,000</u>          |
| <b>COMPONENT UNIT</b>                                     |                              |                     |                   |                           |                            |
| Total component unit                                      | <u>\$ 4,200,000</u>          | <u>\$ -</u>         | <u>\$ 50,000</u>  | <u>\$ 4,150,000</u>       | <u>\$ 100,000</u>          |

Long-term liabilities payable at December 31, 2006 is composed of the following individual issues:

**General Obligation (Governmental Activities)**

|   |                   |
|---|-------------------|
| \$965,000, 1999 City of Petoskey Building Authority Refunding serial bonds due; annual installments of \$95,000 to \$105,000 through October 2009; interest rate of 4.50% to 4.75%. | \$ 290,000        |
| \$800,000, 1999 Building Authority Downtown Improvement bonds; due in annual installments of \$50,000 to \$75,000 through October 2014; interest rate of 4.50% to 4.75%.            | <u>495,000</u>    |
| Total general obligation bonds  | 785,000           |
| Compensated absences  | 50,284            |
| Estimated liability for landfill post closure costs   | <u>85,000</u>     |
| Total governmental activities long-term liabilities   | <u>\$ 920,284</u> |

# NOTES TO FINANCIAL STATEMENTS - Continued

## Revenue Obligation (Business-type Activities)

\$7,500,000, 2001 Water and Sewer bonds; annual installments of \$50,000 to \$600,000 through February 2026; interest rate of 4.00% to 5.00% \$ 7,300,000

\$5,505,000, 2002 Water and Sewer Refunding bonds; annual installments of \$320,000 to \$475,000 through February 2017; interest rate of 3.00% to 5.25% 4,520,000

Total business-type activities revenue obligation debt \$ 11,820,000

## General Obligation (Component Unit)

\$4,300,000, 2003 Building Authority Library Improvement bonds; annual installments of \$50,000 to \$300,000 through October 2028; interest rate of 2.50% to 4.40% \$ 4,150,000

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2006, are as follows:

### Annual Requirements to Amortize Outstanding Bonds December 31, 2006

| Years Ending | Governmental Activities |                   | Business-type Activities |                     | Component Unit      |                     |
|--------------|-------------------------|-------------------|--------------------------|---------------------|---------------------|---------------------|
|              | Principal               | Interest          | Principal                | Interest            | Principal           | Interest            |
| 2007         | \$ 150,000              | \$ 37,900         | \$ 465,000               | \$ 542,173          | \$ 100,000          | \$ 161,125          |
| 2008         | 150,000                 | 30,925            | 560,000                  | 524,124             | 100,000             | 158,625             |
| 2009         | 150,000                 | 23,875            | 555,000                  | 503,257             | 125,000             | 156,125             |
| 2010         | 60,000                  | 16,750            | 595,000                  | 480,987             | 125,000             | 152,813             |
| 2011         | 65,000                  | 13,750            | 590,000                  | 457,384             | 125,000             | 149,187             |
| 2012 - 2016  | 210,000                 | 21,500            | 3,585,000                | 1,819,491           | 800,000             | 674,425             |
| 2017 - 2021  | -                       | -                 | 2,570,000                | 996,113             | 975,000             | 510,113             |
| 2022 - 2026  | -                       | -                 | 2,900,000                | 372,500             | 1,200,000           | 292,925             |
| 2027 - 2031  | -                       | -                 | -                        | -                   | 600,000             | 39,600              |
|              | <u>\$ 785,000</u>       | <u>\$ 144,700</u> | <u>\$ 11,820,000</u>     | <u>\$ 5,696,029</u> | <u>\$ 4,150,000</u> | <u>\$ 2,294,938</u> |

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE I - RESERVED FUND BALANCES/RESTRICTED NET ASSETS

#### Major Governmental Funds

Reserved for marina - The General Fund has \$543,507 reserved for marina operations and improvements.

Reserved for refuse - The General Fund has \$9,730 reserved for refuse collection expenditures.

#### Nonmajor Governmental Funds

Reserved for debt service - The Debt Service Funds have \$72,831 reserved for debt service and related costs.

#### Major Proprietary Funds

Restricted for MPPA energy expenses - The Electric Fund has \$1,825,357 restricted for MPPA energy expenses.

Restricted for revenue bond indentures - In accordance with revenue bond indentures, the Water and Sewer System Fund has \$2,545,701 of its net assets restricted for this specific purpose.

Restricted for sewage agreement covenants - The City has \$295,769 restricted for repair and replacement of sewage treatment facilities.

#### Fiduciary Funds

Restricted for pension benefits and other purposes - The Employees retirement Trust Fund and the Library Endowment Trust Fund have \$235,291 and \$7,567, respectively, restricted for employee pension benefits and library costs.

#### Component Units

Restricted for Tax Increment Finance Authority - The Tax Increment Finance Authority has \$424,813 restricted for use within the TIFA district.

When both restricted and unrestricted resources are available to cover an expense incurred for restricted purposes, restricted resources are utilized first.

### NOTE J - CITY OF PETOSKEY RETIREMENT PLAN

#### Plan Description

The City of Petoskey participates in the Michigan Municipal Employees' Retirement System ("MERS"), and agent multiple-employer defined benefit pension plan that covers all employees of the City of Petoskey. MERS was established by the State of Michigan for purposed of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

## NOTES TO FINANCIAL STATEMENTS - Continued

### Funding Policy

There are no contribution requirements for plan members. The City is required to contribute all amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

### Annual Pension Cost

For the year-ended 2006, the City's required contributions were \$524,086, while their actual contributions were \$533,286. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%) and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30 year period.

#### Three-Year Trend Information for the City of Petoskey

| <u>Fiscal</u><br><u>Year-Ending</u> | <u>Annual</u><br><u>Pension</u><br><u>Cost ("APC")</u> | <u>Percentage</u><br><u>of APC</u><br><u>Contributed</u> | <u>Net Pension</u><br><u>Obligation</u> |
|-------------------------------------|--|--|---|
| 12-31-04                            | 454,518  | 100%   | -                                       |
| 12-31-05                            | 521,868  | 103%   | -                                       |
| 12-31-06                            | 524,086  | 102%   | -                                       |

Additional trend information may be found within the Required Supplemental Information section of the financial statements.

### NOTE K - DEFINED CONTRIBUTION RETIREMENT PLAN

The City provides pension benefits for management employees as designed by City Council through a defined contribution plan. In a defined contribution plan, benefits depends solely on amount contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The City's contributions were calculated using the eligible base salary amount of \$88,724. As established by City Council and governed by Federal regulations. The City made the required 15.12% contribution. Contributions for the year totaled \$12,899.

At December 31, 2006, the City had \$235,291 within the Employees Retirement Trust Fund.

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE L - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In complying with the amended Section 457 requirements, these assets are for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are not included in an agency fund of the City.

### NOTE M - OTHER POST-EMPLOYMENT BENEFITS

The City allows all retirees and their spouses to continue to participate in the City's health insurance plan. The City pays \$1,200 per year for each electing retiree. The remaining cost is the individual retiree's responsibility. As of December 31, 2006, there were 37 participants. The City's actual expense was \$44,800.

### NOTE N - COMMITMENTS AND CONTINGENCIES

#### *Landfill Closure and Post-Closure Care Costs*

An agreement with the State of Michigan requires that the City of Petoskey perform monitoring functions at the landfill site for 30 years after closure. A liability is being recognized based on the future post closure costs that will be incurred over the 17 years remaining on the agreement. The estimated total current cost of the landfill post closure care, \$85,000, is based on the amount that would be paid if the services to monitor the landfill were acquired as of December 31, 2006. However, the actual cost of post closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

#### *Insurance Commitments*

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

#### *Entitlement Commitments*

During 1979 and 1982, the Michigan Public Power Agency ("MPPA"), of which the City is a member, acquired an ownership interest in the Consumers Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets. During 2001, the MPPA acquired an ownership interest in the CT Project No. 1.

The City's entitlement share of the Campbell No. 3 and Belle River unit generating capacities are 1,470 (KW) and 4,137 (KW), respectively. The City's entitlement share of the CT Project No. 1 generating capacity is 4,392 (KW).



## NOTES TO FINANCIAL STATEMENTS - Continued

The entitlements specify minimum annual payments on a "take-or-pay" basis for the generation and transmission capabilities of the units as follows:

| Years ending<br>December 31, | Campbell<br>No. 3   | Belle River<br>Unit | CT Project<br>No. 1 | Total                |
|------------------------------|---------------------|---------------------|---------------------|----------------------|
| 2007                         | \$ 164,256          | \$ 508,672          | \$ 241,329          | \$ 914,257           |
| 2008                         | 164,221             | 508,608             | 241,091             | 913,920              |
| 2009                         | 137,177             | 508,617             | 241,155             | 886,949              |
| 2010                         | 137,856             | 508,693             | 241,499             | 888,048              |
| 2011                         | 138,239             | 508,691             | 241,159             | 888,089              |
| 2012 - 2016                  | 529,479             | 2,543,211           | 1,206,195           | 4,278,885            |
| 2017 - 2021                  | -                   | 508,686             | 1,206,352           | 1,715,038            |
| 2022 - 2026                  | -                   | -                   | 1,206,068           | 1,206,068            |
| Total                        | <u>\$ 1,271,228</u> | <u>\$ 5,595,178</u> | <u>\$ 4,824,848</u> | <u>\$ 11,691,254</u> |

There is a possibility of refunds or subsidy payments to the City due to past fuel overcharges. However, since the amounts are unknown at this time, there are no provisions made in the financial statements.

### ***Other Commitments***

On December 28, 2004, the City signed an agreement with Lake Street Petoskey Associates, LLC (the "Developer") for the purchase of a lower-level parking deck (the "Project") for \$6,252,042. The City will receive a \$970,000 credit against the purchase price for the transfer of City property on the Project site to the Developer. The purchase price is due within 45 days of the Project's completion, which is due to be prior to July 30, 2008. Financing for the Project is to be provided via a Downtown Development Authority Tax-Increment Financing Plan that the City Council approved on December 27, 2004. The plan permits financing of up to \$10.6 million of bonded indebtedness through 2036.

### ***Contingencies***

The General Fund is contingently liable for the Water and Sewer System revenue bonds. The General Fund is obligated only if revenues of the Water and Sewer System Fund would be insufficient to meet its debt service requirements.

### ***Grant Programs***

The City participates in State and Federally assisted grant programs. The programs are subject to economy and efficiency and program result audits by the grantors or their representatives. The audits of the programs for or including the year ended December 31, 2006 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Legal Matters***

There are lawsuits pending in which the City is involved. The City estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

### **NOTE O - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the State. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# City of Petoskey

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended December 31, 2006

|   | Budgeted Amounts |              | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|---|------------------|--------------|------------------------|---------------------------------|--------------------------|
|   | Original         | Final        |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>REVENUES</b>                               |                  |              |                        |                                 |                          |
| Taxes   | \$ 3,615,000     | \$ 3,615,000 | \$ 3,546,668           | \$ -                            | \$ (68,332)              |
| Licenses and permits                          | 6,300            | 6,300        | 10,006                 | -                               | 3,706                    |
| State grants                                  | 561,000          | 561,000      | 575,360                | -                               | 14,360                   |
| Contributions from local units                | 108,000          | 108,000      | 55,112                 | -                               | (52,888)                 |
| Charges for services                          | 702,800          | 702,800      | 799,906                | -                               | 97,106                   |
| Fines and forfeitures                         | 85,700           | 85,700       | 34,938                 | -                               | (50,762)                 |
| Interest and investment earnings              | 80,000           | 80,000       | 267,750                | -                               | 187,750                  |
| Other   | 73,600           | 73,600       | 183,436                | -                               | 109,836                  |
| Total revenues                                | 5,232,400        | 5,232,400    | 5,473,176              | -                               | 240,776                  |
| <b>EXPENDITURES</b>                           |                  |              |                        |                                 |                          |
| Current                                       |                  |              |                        |                                 |                          |
| Legislative                                   | 13,700           | 13,700       | 6,438                  | -                               | 7,262                    |
| General government                            | 1,526,600        | 1,526,600    | 1,264,639              | -                               | 261,961                  |
| Public safety                                 | 2,523,900        | 2,523,900    | 2,515,716              | -                               | 8,184                    |
| Public works                                  | 675,700          | 675,700      | 641,322                | -                               | 34,378                   |
| Health and welfare                            | 38,000           | 38,000       | 21,066                 | -                               | 16,934                   |
| Recreation and cultural                       | 1,754,700        | 1,754,700    | 1,437,806              | -                               | 316,894                  |
| Capital outlay                                | 557,400          | 557,400      | 349,221                | -                               | 208,179                  |
| Total expenditures                            | 7,090,000        | 7,090,000    | 6,236,208              | -                               | 853,792                  |
| <b>REVENUES (UNDER) OVER<br/>EXPENDITURES</b> | (1,857,600)      | (1,857,600)  | (763,032)              | -                               | 1,094,568                |
| <b>OTHER FINANCING SOURCES (USES)</b>         |                  |              |                        |                                 |                          |
| Operating transfers in                        | 1,692,800        | 1,692,800    | 1,647,425              | -                               | (45,375)                 |
| Operating transfers out                       | -                | -            | (123,700)              | -                               | (123,700)                |
| Transfers from component units                | -                | -            | 9,200                  | -                               | 9,200                    |
| Total other financing sources (uses)          | 1,692,800        | 1,692,800    | 1,532,925              | -                               | (159,875)                |
| <b>NET CHANGE IN FUND BALANCES</b>            | (164,800)        | (164,800)    | 769,893                | -                               | 934,693                  |
| <b>Fund balance, beginning of year</b>        | 2,906,100        | 2,906,100    | 2,558,079              | -                               | (348,021)                |
| <b>Fund balance, end of year</b>              | \$ 2,741,300     | \$ 2,741,300 | \$ 3,327,972           | \$ -                            | \$ 586,672               |

# City of Petoskey

## BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND

Year ended December 31, 2006

|   | Budgeted Amounts  |                   | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|---|-------------------|-------------------|------------------------|---------------------------------|--------------------------|
|   | Original          | Final             |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>REVENUES</b>                               |                   |                   |                        |                                 |                          |
| State grants                                  | \$ 426,000        | \$ 426,000        | \$ 504,530             | \$ -                            | \$ 78,530                |
| Interest and other                            | 12,000            | 12,000            | 10,746                 | -                               | (1,254)                  |
| Total revenues                                | <u>438,000</u>    | <u>438,000</u>    | <u>515,276</u>         | <u>-</u>                        | <u>77,276</u>            |
| <b>EXPENDITURES</b>                           |                   |                   |                        |                                 |                          |
| Current                                       |                   |                   |                        |                                 |                          |
| Routine maintenance                           | 130,400           | 130,400           | 153,691                | -                               | (23,291)                 |
| Winter maintenance                            | 285,200           | 285,200           | 239,665                | -                               | 45,535                   |
| Traffic services                              | 33,300            | 33,300            | 55,675                 | -                               | (22,375)                 |
| Administration                                | 287,400           | 287,400           | 225,946                | -                               | 61,454                   |
| Capital outlay                                | <u>500,000</u>    | <u>500,000</u>    | <u>387,735</u>         | <u>-</u>                        | <u>112,265</u>           |
| Total expenditures                            | <u>1,236,300</u>  | <u>1,236,300</u>  | <u>1,062,712</u>       | <u>-</u>                        | <u>173,588</u>           |
| <b>REVENUES (UNDER) OVER<br/>EXPENDITURES</b> | (798,300)         | (798,300)         | (547,436)              | -                               | 250,864                  |
| <b>OTHER FINANCING USES</b>                   |                   |                   |                        |                                 |                          |
| Operating transfers in                        | <u>700,000</u>    | <u>700,000</u>    | <u>700,000</u>         | <u>-</u>                        | <u>-</u>                 |
| <b>NET CHANGE IN FUND BALANCES</b>            | (98,300)          | (98,300)          | 152,564                | -                               | 250,864                  |
| <b>Fund balance, beginning of year</b>        | <u>454,200</u>    | <u>454,200</u>    | <u>238,650</u>         | <u>-</u>                        | <u>(215,550)</u>         |
| <b>Fund balance, end of year</b>              | <u>\$ 355,900</u> | <u>\$ 355,900</u> | <u>\$ 391,214</u>      | <u>\$ -</u>                     | <u>\$ 35,314</u>         |

# City of Petoskey

## BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND

Year ended December 31, 2006

|  | Budgeted Amounts  |                   | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|--|-------------------|-------------------|------------------------|---------------------------------|--------------------------|
|  | Original          | Final             |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>REVENUES</b>                        |                   |                   |                        |                                 |                          |
| State grants                           | \$ 125,000        | \$ 125,000        | \$ 150,013             | \$ -                            | \$ 25,013                |
| Interest                               | 17,000            | 17,000            | 32,574                 | -                               | 15,574                   |
| Other                                  | -                 | -                 | 436                    | -                               | 436                      |
| Total revenues                         | <u>142,000</u>    | <u>142,000</u>    | <u>183,023</u>         | <u>-</u>                        | <u>41,023</u>            |
| <b>EXPENDITURES</b>                    |                   |                   |                        |                                 |                          |
| Routine maintenance                    | 82,200            | 82,200            | 96,179                 | -                               | (13,979)                 |
| Winter maintenance                     | 142,800           | 142,800           | 96,044                 | -                               | 46,756                   |
| Traffic services                       | 8,100             | 8,100             | 22,895                 | -                               | (14,795)                 |
| Administration                         | 219,800           | 219,800           | 235,331                | -                               | (15,531)                 |
| Capital outlay                         | <u>600,000</u>    | <u>600,000</u>    | <u>529,097</u>         | <u>-</u>                        | <u>70,903</u>            |
| Total expenditures                     | <u>1,052,900</u>  | <u>1,052,900</u>  | <u>979,546</u>         | <u>-</u>                        | <u>73,354</u>            |
| <b>REVENUES OVER EXPENDITURES</b>      | (910,900)         | (910,900)         | (796,523)              | -                               | 114,377                  |
| <b>OTHER FINANCING USES</b>            |                   |                   |                        |                                 |                          |
| Operating transfers in                 | <u>650,000</u>    | <u>650,000</u>    | <u>650,000</u>         | <u>-</u>                        | <u>-</u>                 |
| <b>NET CHANGE IN FUND BALANCES</b>     | (260,900)         | (260,900)         | (146,523)              | -                               | 114,377                  |
| <b>Fund balance, beginning of year</b> | <u>537,600</u>    | <u>537,600</u>    | <u>619,828</u>         | <u>-</u>                        | <u>82,228</u>            |
| <b>Fund balance, end of year</b>       | <u>\$ 276,700</u> | <u>\$ 276,700</u> | <u>\$ 473,305</u>      | <u>\$ -</u>                     | <u>\$ 196,605</u>        |

# City of Petoskey

## BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY IMPROVEMENT FUND

Year ended December 31, 2006

|  | Budgeted Amounts   |                    | Actual<br>(GAAP Basis) | Variances - Positive (Negative) |                          |
|--|--------------------|--------------------|------------------------|---------------------------------|--------------------------|
|  | Original           | Final              |                        | Original to<br>Final            | Final to Actual<br>Total |
| <b>REVENUES</b>                        |                    |                    |                        |                                 |                          |
| Property taxes                         | \$ 1,747,000       | \$ 1,747,000       | \$ 1,714,128           | \$ -                            | \$ (32,872)              |
| Interest                               | <u>17,000</u>      | <u>17,000</u>      | <u>25,978</u>          | <u>-</u>                        | <u>8,978</u>             |
| Total revenue                          | 1,764,000          | 1,764,000          | 1,740,106              | -                               | (23,894)                 |
| <b>EXPENDITURES</b>                    |                    |                    |                        |                                 |                          |
| Contracted services                    | <u>2,000</u>       | <u>2,000</u>       | <u>1,595</u>           | <u>-</u>                        | <u>405</u>               |
| <b>REVENUES OVER<br/>EXPENDITURES</b>  | <u>1,762,000</u>   | <u>1,762,000</u>   | <u>1,738,511</u>       | <u>-</u>                        | <u>23,489</u>            |
| <b>OTHER FINANCING USES</b>            |                    |                    |                        |                                 |                          |
| Operating transfers out                | <u>(1,650,000)</u> | <u>(1,650,000)</u> | <u>(1,650,000)</u>     | <u>-</u>                        | <u>-</u>                 |
| <b>NET CHANGE IN FUND<br/>BALANCES</b> | 112,000            | 112,000            | 88,511                 | -                               | 23,489                   |
| <b>Fund balance, beginning of year</b> | <u>798,562</u>     | <u>798,562</u>     | <u>798,562</u>         | <u>-</u>                        | <u>-</u>                 |
| <b>Fund balance, end of year</b>       | <u>\$ 910,562</u>  | <u>\$ 910,562</u>  | <u>\$ 887,073</u>      | <u>\$ -</u>                     | <u>\$ 23,489</u>         |

## City of Petoskey

### DEFINED BENEFIT PENSION PLAN TREND INFORMATION

For the year ended December 31, 2006

#### Schedule of Funding Progress (\$000)

| DEFINED<br>BENEFIT<br>PENSION<br>PLAN<br>TREND<br>INFORMATION | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b-a)/c] |
|---|--|--|---------------------------------|--------------------------|---------------------------|---|
| 12/31/2002  | 11,351                                 | 13,983   | 2,632                           | 81 %                     | 3,060                     | 86 %  |
| 12/31/2003  | 12,032                                 | 15,316   | 3,284                           | 79 %                     | 3,219                     | 102 %   |
| 12/31/2004  | 12,659                                 | 15,717   | 3,058                           | 81 %                     | 3,069                     | 100 %   |
| 12/31/2005  | 13,219                                 | 16,754   | 3,535                           | 79 %                     | 3,536                     | 100 %   |
| 12/31/2006  | *                                      | *  | *                               | *                        | *                         | *   |

\* Information not currently available.

#### Schedule of Employer Contributions

| <u>Fiscal<br/>Year Ended</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> |
|------------------------------|--|--|
| 12/31/02                     | \$ 349,942                               | 100 %  |
| 12/31/03                     | 404,128                                  | 100 %  |
| 12/31/04                     | 454,518                                  | 100 %  |
| 12/31/05                     | 521,868                                  | 103 %  |
| 12/31/06                     | 524,086                                  | 102 %  |



## **COMBINING FINANCIAL STATEMENTS**

# City of Petoskey

## COMBINING STATEMENT OF NET ASSETS - NONMAJOR COMPONENT UNITS

December 31, 2006

|   | <u>TIFA</u>              | <u>Downtown<br/>Management/<br/>Parking</u> | <u>Total</u>               |
|---|--------------------------|---|----------------------------|
| <b>ASSETS</b>                                   |                          |   |                            |
| Current assets                                  |                          |   |                            |
| Cash  | \$ 329,988               | \$ 252,912                                  | \$ 582,900                 |
| Investments                                     | <u>97,920</u>            | <u>-</u>                                    | <u>97,920</u>              |
| Total current assets                            | <u>427,908</u>           | <u>252,912</u>                              | <u>680,820</u>             |
| Noncurrent assets                               |                          |   |                            |
| Capital assets                                  | 461,017                  | -   | 461,017                    |
| Less accumulated depreciation                   | <u>(54,120)</u>          | <u>-</u>                                    | <u>(54,120)</u>            |
| Total noncurrent assets                         | <u>406,897</u>           | <u>-</u>                                    | <u>406,897</u>             |
| Total assets                                    | <u><u>\$ 834,805</u></u> | <u><u>\$ 252,912</u></u>                    | <u><u>\$ 1,087,717</u></u> |
| <b>LIABILITIES AND FUND BALANCES</b>            |                          |   |                            |
| <b>LIABILITIES</b>                              |                          |   |                            |
| Accounts payable                                | \$ 3,095                 | \$ 3,029                                    | \$ 6,124                   |
| Due to primary government                       | <u>-</u>                 | <u>72</u>                                   | <u>72</u>                  |
| Total liabilities                               | <u>3,095</u>             | <u>3,101</u>                                | <u>6,196</u>               |
| <b>NET ASSETS</b>                               |                          |   |                            |
| Invested in capital assets, net of related debt | 406,897                  | -   | 406,897                    |
| Restricted                                      |                          |   |                            |
| TIFA expenses                                   | 424,813                  | -   | 424,813                    |
| Unrestricted                                    | <u>-</u>                 | <u>249,811</u>                              | <u>249,811</u>             |
| Total net assets                                | <u>831,710</u>           | <u>249,811</u>                              | <u>1,081,521</u>           |
| Total liabilities and net assets                | <u><u>\$ 834,805</u></u> | <u><u>\$ 252,912</u></u>                    | <u><u>\$ 1,087,717</u></u> |

# City of Petoskey

## COMBINING STATEMENT OF ACTIVITIES - NONMAJOR COMPONENT UNITS

Year ended December 31, 2006

| Functions/Program                    | Program Revenues |                         |  | Net (Expense) Revenue and<br>Changes in Net Assets |              |                                    |
|--------------------------------------|------------------|-------------------------|--|--|--------------|------------------------------------|
|                                      | Expenses         | Charges<br>For Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions             | TIFA         | Downtown<br>Management/<br>Parking |
| Component units                      |                  |                         |  |  |              |                                    |
| TIFA                                 | \$ 179,596       | \$ -                    | \$ -                                     | \$ -   | \$ (179,596) | \$ -                               |
| Downtown Management/Parking          | 155,298          | 393,012                 | -  | -  | -            | 237,714                            |
| Total component units                | \$ 334,894       | \$ 393,012              | \$ -                                     | \$ -   | (179,596)    | 237,714                            |
|                                      |                  |                         |  |  |              | 58,118                             |
| General revenues                     |                  |                         |  |  |              |                                    |
| Property taxes                       |                  |                         |  |  | 177,596      | -                                  |
| Interest and investment earnings     |                  |                         |  |  | 19,900       | 7,634                              |
| Transfers                            |                  |                         |  |  | -            | (89,200)                           |
|                                      |                  |                         |  |  |              | (89,200)                           |
| Total general revenues and transfers |                  |                         |  |  | 197,496      | (81,566)                           |
|                                      |                  |                         |  |  |              | 115,930                            |
| Change in net assets                 |                  |                         |  |  | 17,900       | 156,148                            |
|                                      |                  |                         |  |  |              | 174,048                            |
| Net assets, beginning of year        |                  |                         |  |  | 813,810      | 93,663                             |
|                                      |                  |                         |  |  |              | 907,473                            |
| Net assets, end of year              |                  |                         |  |  | \$ 831,710   | \$ 249,811                         |
|                                      |                  |                         |  |  |              | \$1,081,521                        |

# City of Petoskey

## COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2006

|                                      | Special Revenue Funds |                        |                             | Debt Service Funds   |  |                          | Total<br>Non-Major<br>Funds |
|--------------------------------------|-----------------------|------------------------|-----------------------------|--|--|--------------------------|-----------------------------|
|                                      | General<br>Street     | Downtown<br>Management | Total<br>Special<br>Revenue | Building<br>Authority<br>Downtown<br>Improvement<br>Bonds Debt | Building<br>Authority<br>Refunding<br>Bonds Debt | Total<br>Debt<br>Service |                             |
| <b>ASSETS</b>                        |                       |                        |                             |  |  |                          |                             |
| Current assets                       |                       |                        |                             |  |  |                          |                             |
| Cash                                 | \$ 114,983            | \$ 90,266              | \$ 205,249                  | \$ 18,077  | \$ 54,754  | \$ 72,831                | \$ 278,080                  |
| Receivables                          |                       |                        |                             |  |  |                          |                             |
| Special assessments                  | -                     | 28,972                 | 28,972                      | -  | -  | -                        | 28,972                      |
| Accounts                             | 13,229                | -                      | 13,229                      | -  | -  | -                        | 13,229                      |
| Due from other funds                 | 80,380                | 1,146                  | 81,526                      | -  | -  | -                        | 81,526                      |
| Due from component units             | 9                     | -                      | 9                           | -  | -  | -                        | 9                           |
| Inventory, at cost                   | 118,790               | -                      | 118,790                     | -  | -  | -                        | 118,790                     |
| Total assets                         | \$ 327,391            | \$ 120,384             | \$ 447,775                  | \$ 18,077  | \$ 54,754  | \$ 72,831                | \$ 520,606                  |
| <b>LIABILITIES AND FUND BALANCES</b> |                       |                        |                             |  |  |                          |                             |
| <b>LIABILITIES</b>                   |                       |                        |                             |  |  |                          |                             |
| Accounts payable                     | \$ 32,126             | \$ 5,163               | \$ 37,289                   | \$ -   | \$ -   | \$ -                     | \$ 37,289                   |
| Due to other funds                   | 2,169                 | -                      | 2,169                       | -  | -  | -                        | 2,169                       |
| Total liabilities                    | 34,295                | 5,163                  | 39,458                      | -  | -  | -                        | 39,458                      |
| <b>FUND BALANCES</b>                 |                       |                        |                             |  |  |                          |                             |
| Reserved                             |                       |                        |                             |  |  |                          |                             |
| Debt service                         | -                     | -                      | -                           | 18,077   | 54,754   | 72,831                   | 72,831                      |
| Unreserved                           | 293,096               | 115,221                | 408,317                     | -  | -  | -                        | 408,317                     |
| Total fund balances                  | 293,096               | 115,221                | 408,317                     | 18,077   | 54,754   | 72,831                   | 481,148                     |
| Total liabilities and fund balances  | \$ 327,391            | \$ 120,384             | \$ 447,775                  | \$ 18,077  | \$ 54,754  | \$ 72,831                | \$ 520,606                  |

-50- The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

Year ended December 31, 2006

|   | Special Revenue Funds |                        | Debt Service Funds |  |  | Total<br>Other<br>Non-Major<br>Funds |
|---|-----------------------|------------------------|--------------------|--|--|--------------------------------------|
|   | General<br>Street     | Downtown<br>Management | Total              | Building<br>Authority<br>Downtown<br>Improvement<br>Bonds Debt | Building<br>Authority<br>Refunding<br>Bonds Debt | Total                                |
| <b>REVENUES</b>                           |                       |                        |                    |  |  |                                      |
| Special assessments                       | \$ -                  | \$ 57,382              | \$ 57,382          | \$ -   | \$ -   | \$ 57,382                            |
| Interest                                  | 19,899                | 3,112                  | 23,011             | 926  | 5,374  | 29,311                               |
| Other                                     | 777                   | -                      | 777                | -  | -  | 777                                  |
| Total revenues                            | 20,676                | 60,494                 | 81,170             | 926  | 5,374  | 87,470                               |
| <b>EXPENDITURES</b>                       |                       |                        |                    |  |  |                                      |
| Current                                   |                       |                        |                    |  |  |                                      |
| Public works                              | 350,410               | 42,203                 | 392,613            | -  | -  | 392,613                              |
| Capital outlay                            | 252,963               | -                      | 252,963            | -  | -  | 252,963                              |
| Principal                                 | -                     | -                      | -                  | 50,000   | 105,000  | 155,000                              |
| Interest                                  | -                     | -                      | -                  | 26,698   | 18,555   | 45,253                               |
| Total expenditures                        | 603,373               | 42,203                 | 645,576            | 76,698   | 123,555  | 845,829                              |
| <b>REVENUES (UNDER) OVER EXPENDITURES</b> | (582,697)             | 18,291                 | (564,406)          | (75,772)   | (118,181)  | (758,359)                            |
| <b>OTHER FINANCING SOURCES (USES)</b>     |                       |                        |                    |  |  |                                      |
| Operating transfers in                    | 700,000               | -                      | 700,000            | -  | 123,700  | 823,700                              |
| Transfers from component units            | -                     | -                      | -                  | 80,000   | -  | 80,000                               |
| Total other financing sources (uses)      | 700,000               | -                      | 700,000            | 80,000   | 123,700  | 903,700                              |
| <b>NET CHANGE IN FUND BALANCE</b>         | 117,303               | 18,291                 | 135,594            | 4,228  | 5,519  | 145,341                              |
| <b>Fund balance, beginning of year</b>    | 175,793               | 96,930                 | 272,723            | 13,849   | 49,235   | 335,807                              |
| <b>Fund balance, end of year</b>          | \$ 293,096            | \$ 115,221             | \$ 408,317         | \$ 18,077  | \$ 54,754  | \$ 481,148                           |

-51- The accompanying notes are an integral part of these financial statements.

# City of Petoskey

## COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

December 31, 2006

|   | Motor<br>Vehicle and<br>Equipment | Employee<br>Fringe<br>Benefit | Totals              |
|---|-----------------------------------|-------------------------------|---------------------|
| <b>ASSETS</b>                                   |                                   |                               |                     |
| Current assets                                  |                                   |                               |                     |
| Cash  | \$ 338,521                        | \$ 712,127                    | \$ 1,050,648        |
| Due from other funds                            | 61,556                            | -                             | 61,556              |
| Due from component units                        | 63                                | -                             | 63                  |
| Inventory                                       | <u>33,646</u>                     | <u>-</u>                      | <u>33,646</u>       |
| Total current assets                            | <u>433,786</u>                    | <u>712,127</u>                | <u>1,145,913</u>    |
| Noncurrent assets                               |                                   |                               |                     |
| Capital assets                                  | 4,454,871                         | -                             | 4,454,871           |
| Less accumulated depreciation                   | <u>(2,757,041)</u>                | <u>-</u>                      | <u>(2,757,041)</u>  |
| Total noncurrent assets                         | <u>1,697,830</u>                  | <u>-</u>                      | <u>1,697,830</u>    |
| Total assets                                    | <u>\$ 2,131,616</u>               | <u>\$ 712,127</u>             | <u>\$ 2,843,743</u> |
| <b>LIABILITIES AND NET ASSETS</b>               |                                   |                               |                     |
| <b>CURRENT LIABILITIES</b>                      |                                   |                               |                     |
| Accounts payable                                | \$ 11,452                         | \$ 10,649                     | \$ 22,101           |
| Accrued wages                                   | 450                               | -                             | 450                 |
| Due to other funds                              | <u>434</u>                        | <u>-</u>                      | <u>434</u>          |
| Total current liabilities                       | 12,336                            | 10,649                        | 22,985              |
| <b>NONCURRENT LIABILITIES</b>                   |                                   |                               |                     |
| Compensated absences payable                    | <u>-</u>                          | <u>99,423</u>                 | <u>99,423</u>       |
| Total liabilities                               | <u>12,336</u>                     | <u>110,072</u>                | <u>122,408</u>      |
| <b>NET ASSETS</b>                               |                                   |                               |                     |
| Invested in capital assets, net of related debt | 1,697,830                         | -                             | 1,697,830           |
| Unrestricted                                    | <u>421,450</u>                    | <u>602,055</u>                | <u>1,023,505</u>    |
| Total net assets                                | <u>2,119,280</u>                  | <u>602,055</u>                | <u>2,721,335</u>    |
| Total liabilities and net assets                | <u>\$ 2,131,616</u>               | <u>\$ 712,127</u>             | <u>\$ 2,843,743</u> |

# City of Petoskey

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

Year ended December 31, 2006

|  | Motor<br>Vehicle and<br>Equipment | Employee<br>Fringe<br>Benefit | Totals           |
|--|-----------------------------------|-------------------------------|------------------|
| Operating revenues                     |                                   |                               |                  |
| Charges for services                   | \$ 874,224                        | \$ 1,756,347                  | \$ 2,630,571     |
| Operating expenses                     |                                   |                               |                  |
| Personal services                      | 70,092                            | -                             | 70,092           |
| Contractual services                   | 326,817                           | 2,045,396                     | 2,372,213        |
| Supplies                               | 148,982                           | -                             | 148,982          |
| Depreciation                           | 326,050                           | -                             | 326,050          |
| Total operating expenses               | 871,941                           | 2,045,396                     | 2,917,337        |
| <b>OPERATING INCOME</b>                | <b>2,283</b>                      | <b>(289,049)</b>              | <b>(286,766)</b> |
| Nonoperating revenues (expenses)       |                                   |                               |                  |
| Interest                               | 14,652                            | 34,311                        | 48,963           |
| Miscellaneous                          | 12,437                            | -                             | 12,437           |
| Total nonoperating revenues (expenses) | 27,089                            | 34,311                        | 61,400           |
| <b>INCOME (LOSS) BEFORE TRANSFERS</b>  | <b>29,372</b>                     | <b>(254,738)</b>              | <b>(225,366)</b> |
| Transfers out                          | (100,525)                         | -                             | (100,525)        |
| <b>CHANGE IN NET ASSETS</b>            | <b>(71,153)</b>                   | <b>(254,738)</b>              | <b>(325,891)</b> |
| Net assets, beginning of year          |                                   |                               |                  |
| As previously reported                 | 2,190,433                         | 856,793                       | 3,047,226        |
| Net assets, end of year                | \$ 2,119,280                      | \$ 602,055                    | \$ 2,721,335     |